THE EVOLVING ROLE OF THE FEDERAL CFO

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT EFFICIENCY AND FINANCIAL MANAGEMENT

OF THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

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THE EVOLVING ROLE OF THE FEDERAL CFO

WEDNESDAY, SEPTEMBER 15, 2004

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT EFFICIENCY AND FINANCIAL MANAGEMENT,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 1 p.m., in room 2247, Rayburn House Office Building, Hon. Todd Russell Platts (chairman of the subcommittee) presiding.

Present: Representatives Platts and Towns.

Staff present: Mike Hettinger, staff director; Larry Brady and Tabetha Mueller, professional staff members; Amy Landeman, legislative assistant; Nathaniel Berry, clerk; Adam Bordes, minority professional staff member; and Jean Gosa, minority assistant clerk.

Mr. PLATTS. A quorum being present, this hearing of the Subcommittee on Government Efficiency and Financial Management will come to order.

As stewards of the taxpayers' money, we in Congress are charged with ensuring that each and every public dollar is spent wisely. Regardless of party affiliation or ideological bent, all of us that are entrusted with the handling of public resources must be held accountable for using them effectively and safeguarding them from fraud and misuse.

The Founding Fathers recognized the importance of the role of stewardship. Section 9 of Article I of the U.S. Constitution requires that, "a regular statement and account of the receipts and expenditures of all public money shall be published from time to time."

The role of financial managers has changed a great deal since 1789. While responsible stewardship is paramount, it no longer is the only goal.

After 5 years of debate, Congress passed the Chief Financial Officers Act of 1990. The CFO Act became the cornerstone for a host of management reforms. For the first time, Federal agencies were required to submit to audit.

Congress imparted the importance and prominence of sound financial management by establishing a management structure that places the chief financial officer in a position of power reporting directly to the agency head appointed by the President with the advice and consent of the Senate. The underlying goal was clear. CFOs would become more than stewards. They would become strategists who were part of an agency's top leadership team.

Strategic financial management does not end with a clean opinion. In fact, clean audits are merely a starting point. Timely, accu-

rate and useful financial data is needed to manage and make effective decisions. Without this information, the Federal Government cannot analyze costs and benefits or gather an accurate assessment of program performance.

We have seen remarkable progress. In the past, the main focus was on paying the bills. Accounting was a back-office function, and reporting was not timely or useful to management. Accounting standards for the Federal Government did not exist. Automated systems, when they existed, were focused on recording transactions. Most were developed in-house and were not integrated.

Now we are moving from data entry to data analysis. We are beginning to see the development of cost information and performance data. A complete set of financial statements is produced at every agency. We have a full set of accounting standards. More departments are developing single financial management systems, eliminating redundancies, creating efficiencies, reducing the possibility of error and facilitating analysis.

As these changes continue, we will be closer to the original goal of the CFO Act: strategic financial management; and we will continue to realize more value for the taxpayer.

This level of transformation could not have occurred without the commitment of top leadership. The standing of the CFO in the agency management structure was a key consideration during debate as the CFO Act was crafted. In order to continue the transformation as we must, the agency CFO must remain in a position of importance and influence.

With the focus on improving agency management, Congress has created several positions—the chief information officer, the chief human capital officer and the chief acquisition officer—whose responsibilities complement and sometimes duplicate those of agency CFOs.

Today, we will discuss the changing dynamics of financial management in the Federal Government and how these statutory officers can work together most effectively while maintaining the unique fiduciary responsibilities of the CFO.

I certainly would like to thank each of our witnesses for being here today. We appreciate your preparation for today's hearing. You bring a wealth of experience and expertise, and I certainly look forward to each of your testimonies.

I now yield to our ranking member, the gentleman from New York, for the purposes of an opening statement.

Mr. TOWNS. Thank you very much, Mr. Chairman, for holding this hearing today on the evolving roles and responsibilities of today's chief financial officer. As we continue in our pursuit of methods to make our government more effective in times of financial duress, I'm hopeful that today's witnesses can share with us practical and unique approaches on how to achieve such goals.

As we have discussed during previous hearings, the financial management of agencies subject to the CFO Act of 1990 has improved steadily over time. For fiscal year 2003, GAO was able to give 20 out of 23 agencies a clean audit opinion, which is the same as last year's outcome when factoring in FEMA's move to DHS. Furthermore, efforts to streamline effective financial management

systems and controls among the legacy system of the newly created Department of Homeland Security continues through progress.

However, there remains many issues that continue to challenge today's CFO, including the implementation of new technologies and agency financial management practices, human capital development deficiencies, budget constraints and the streamlining of administrative procedures.

As demonstrated by agencies such as NASA and DOD, the implementation of effective and compliant financial management systems has improved. For fiscal year 2003, 17 agencies' financial management systems were not in compliance with the requirements of the Financial Management Improvement Act, the same number as reported in fiscal year 2002. One specific agency, NASA, has been deemed a high-risk agency by GAO for its failure to implement adequate financial management practices, even though past attempts at system integration has already cost taxpayers $180 million. While this is only one example, it serves as a reminder of the costs involved with flawed financial management policies.

Let me conclude by saying I look forward to hearing from today's witnesses on these topics and hope they can share some insights on how to establish effective policies that empower the modern CFO.

On that note, Mr. Chairman, I will yield back.

Mr. PLATTS. As I mentioned, we have a great panel of witnesses here today who bring a wealth of knowledge and experience to our hearing.

First, we have the Honorable Linda Springer. Ms. Springer is the Controller with the Office of Management and Budget, and we appreciate you being back with us again.

Next, we have Mr. Morgan Kinghorn, President of the National Academy of Public Administration, and, as a graduate of Shippensburg University in Public Administration, I appreciate your work with the Academy.

The Honorable Edward DeSeve, Senior Vice President and Managing Director of ACS State and Local Solutions, Inc., and former Deputy Director of Management within the Office of Management and Budget. I appreciate you being with us and your service as well with OMB in the past.

And, finally, Dr. Virginia McMurtry, Congressional Research Service.

We appreciate all four of you. We have had a chance to review your written testimony, and if you would like to either summarize that or complement your written testimony with an opening statement and try to stay roughly within that opening statement period of 5 minutes if possible.

So, Ms. Springer, if you would like to begin.

The practice of the full committee and the subcommittees is to have everyone rise and be sworn in.

[Witnesses sworn.]

Mr. PLATTS. The clerk will note that all witnesses have affirmed the oath, and we will begin with Ms. Springer.

STATEMENTS OF LINDA SPRINGER, CONTROLLER, OFFICE OF MANAGEMENT AND BUDGET; EDWARD DESEVE, SENIOR VICE PRESIDENT AND MANAGING DIRECTOR, ACS STATE AND LOCAL SOLUTIONS, INC.; MORGAN KINGHORN, PRESIDENT, NATIONAL ACADEMY OF PUBLIC ADMINISTRATION; AND VIRGINIA MCMURTRY, PH.D., CONGRESSIONAL RESEARCH SERVICE

Ms. SPRINGER. Thank you, Mr. Chairman; and I want to thank you and Ranking Member Towns for your steadfast support for the CFO community and for financial management in the Federal Government. More than any other committee, both from the House or the Senate, you have been most attentive to our positions and our mission and it's greatly appreciated.

Just over 2 years ago, I joined the Office of Management and Budget to become the Controller and head of the Office of Federal Financial Management. At the time, approximately a decade had passed since the enactment of the CFO Act of 1990, which created the position of CFO at the major departments and agencies in the Federal Government. As the statutory head of financial management of the Federal Government, I direct and oversee these CFOs in carrying out their responsibilities. This vantage point, combined with 25 years of private sector financial management experience, will underlie the perspective I'll share with you today about the role and effectiveness of our CFOs.

Under the CFO Act, the CFO is designated as the executive tasked with financial management and related responsibilities at the agency. While his or her statutory activities are often downstream from policy setting that leads to program enactment, the CFO is an important member of an agency's leadership team. From budgeting and funding at the front end, through course management during program execution, to the final accounting and reporting of disposition of expenditures, the CFO is involved throughout the entire lifecycle of nearly every agency's initiative. This requires CFOs to maintain a knowledge of the agency's operations that is distinguished by its high level of both breadth and depth.

This broad knowledge has made CFOs attractive candidates for expanded duties at their agencies. A recent study conducted by the CFO Council examined the variation in roles and duties of CFOs at the 24 major agencies. Using nine functional areas, the study results support the assertion that CFOs have varied duties. Consistent with the CFO Act, 22 of 24 CFOs are responsible for financial systems, operations and analysis, budget execution and performance management functions. There is one CFO that doesn't have budget execution and one CFO that doesn't have performance management. Otherwise, all of the CFO Act responsibilities are being held and are vested in the CFOs of the 24 agencies.

What is noteworthy is that the prevalence of the CFOs having additional duties is very great. We have six that have personnel responsibilities, 10 procurement and 11 having grants management functions. Additionally, all but four have budget formulation, which is not actually covered by the CFO Act.

Clearly, the CFO is increasingly recognized as being positioned to provide agency-wide leadership that other officials with more limited portfolios cannot offer.

The CFO Council itself was established by the act to provide a venue for CFOs to meet periodically and advise and coordinate on their financial management activities. The CFO Council has accomplished its goals through a committee structure. These committees were recently realigned to better respond to emerging issues and support the needs of the Federal financial community.

There exists a good balance on the committees between CFOs and Deputy CFOs. Deputy CFOs are typically career members of the government; and CFOs, for the most part, not all, are political appointees. But that provides continuity of institutional knowledge and continuous progress of initiatives regardless of changes in political leadership. The Office of Federal Financial Management partners with the CFOs in all of their committee work.

Currently, we have six committees: the Best Practices Committee, Financial Management Policies and Practices, Financial Reporting Acceleration, Financial Systems and E-Government, Improper Payments, and the Performance Measurement Committee. For additional information on those committees, I would refer you to the 2004 Federal Financial Management Report. I have extra copies. It was distributed to each member of the subcommittee. It is also available on the White House Web site.

Today's Federal Government CFO is not the CFO of the past, and that's important to note. Successful CFOs in government as well as in the private sector possess capabilities beyond just financial acumen and subject expertise. While Federal Government CFOs have narrower portfolios than their private sector counterparts, they must still have the full range of leadership skills that are found in CFOs of well-run private sector financial management organizations. To be effective in the expanded areas for which they're responsible, these executives and their officers have to have a comprehensive understanding of both operational and strategic missions at their agencies. All of these characteristics support the objective that agencies and the American citizens deserve decisions that are informed by accurate and timely financial information and that programs are executed in an environment of robust control and cost consciousness.

Again, I thank you for allowing me to testify at this hearing and I will be happy to entertain your questions.

Mr. PLATTS. Thank you, Ms. Springer.

[The prepared statement of Ms. Springer follows:]

Statement of The Honorable Linda M. Springer
Controller, Office of Federal Financial Management
Office of Management and Budget

Before the
Subcommittee on Government Efficiency and Financial Management
Committee on Government Reform
United States House of Representatives
September 15, 2004

"The Role of the Chief Financial Officer in the Federal Government"

Thank you, Mr. Chairman.

I appreciate the opportunity to testify before this Subcommittee to discuss the role of the Chief Financial Officer (CFO) in the Federal Government.

Just over two years ago, I joined the Office of Management and Budget (OMB) to become the Controller and head of the Office of Federal Financial Management. At the time, approximately a decade had passed since the enactment of the CFO Act of 1990 (CFO Act), which created the position of a CFO at the major departments and agencies in the Federal Government. As the statutory head of financial management in the Federal Government, I direct and oversee these CFOs in carrying out substantial portions of their responsibilities. This vantage point, combined with 25 years of private sector financial and management experience underlies the perspective I will share with you today on the role and effectiveness of our CFOs.

Chief Financial Officer Responsibilities

The CFO Act sets forth the specific authority and details the responsibilities of the major Federal agency CFO offices (31 U.S.C. 902). These statutory duties can be categorized into the following eight areas:

1. reporting of financial management matters to the agency head;
2. oversight of agency financial management activities;
3. development and maintenance of the agency's accounting and financial management systems;
4. providing input for selection of deputy CFOs;
5. management of agency financial management staff, activities and operations;
6. preparation and submission of performance and accountability reports on the agency's financial management;
7. monitoring of financial execution of the agency's budget; and
8. review of and recommendations related to cost coverage of an agency's charges imposed for services and things of value rendered.

Under the CFO Act, the CFO is designated as the executive tasked with financial management and related responsibilities at the agency. While his or her statutory activities are often "downstream" from the policy setting process that leads to program enactment, the CFO is an important member of an agency's leadership team. From budgeting and funding at the front end, through cost management during program execution, to the final accounting and reporting of the disposition of expenditures, the CFO is involved throughout the entire lifecycle of nearly every agency initiative. This requires CFOs to maintain a knowledge of the agency's operations that is distinguished by its high level of both breadth and depth.

This broad knowledge has made CFOs attractive candidates for expanded duties at their agencies. A recent study conducted by the CFO Council examined the variation in roles and duties of CFOs at the 24 major agencies. Using nine functional areas[1], the study results support the assertion that agency CFOs have varied duties. Consistent with the CFO Act, all CFOs are responsible for financial systems, operations, and analysis, and nearly all CFOs are also tasked with budget formulation, budget execution, and performance management functions. What is noteworthy is the prevalence of CFOs having additional duties in the areas of personnel (6), procurement (10), and grants management (11) functions.

Clearly, the CFO is increasingly recognized as being positioned to provide agency-wide leadership that other officials with more limited portfolios cannot offer.

Chief Financial Officers Council

Established by the CFO Act of 1990, the CFO Council provides a venue for the CFOs to meet on a periodic basis to advise and coordinate the financial management activities of their agencies. The Council addresses such matters as improved quality of financial information, financial data and information standards, consolidation and modernization of financial systems, internal control, legislation affecting financial operations and organizations, and other financial management matters. As Controller, I lead the Council and work with it to achieve our objectives in these areas.

CFOs are actively engaged in the Council and are integrally involved with the planning of the meeting agendas. Several of the CFOs who serve on the Executive Steering Committee, which meets monthly with the Office of Federal Financial Management to discuss emerging issues, provide committee updates, and help to prepare the agenda for the upcoming Council meeting. At least one CFO co-owns (with OMB) each Council meeting, by preparing and presenting the topics for consideration and discussion by the Council.

The CFO Council has historically accomplished its goals through a committee structure. These committees were recently realigned to better respond to emerging issues and support the needs of the Federal financial community. There exists a good balance on the committees between the CFOs and Deputy CFOs, which provides institutional knowledge, continuity and consistent progress regardless of changes in political leadership. The Office of Federal Financial Management partners with the CFOs in all of their committee work.

[1] The nine functional areas of the CFO included in the survey were: budget formulation, budget execution, financial operations and analysis, financial systems, IRM, personnel, procurement, grants, and performance management.

The following is a listing and brief description of the current CFO Council committee structure:

***Best Practices*:** This committee helps to resolve common financial management and business process challenges through exposure to new ideas and strategies from "best practice" organizations and alternative perspectives of government and industry leaders. Recent committee activity has focused on scheduling events to hear about private sector approaches to business process re-engineering and shared Federal agency practices in meeting accelerated financial reporting deadlines.

***Financial Management Policies and Practices*:** This newly-formed committee is comprised of representatives from Federal agencies who work collaboratively to identify and address emerging issues. An initial effort of the committee has been to survey the agencies to determine the scope of internal control assurance being provided by management and auditors. Additionally, the committee has undertaken a project, with the Inspector General community, to consider the costs and benefits of additional assurances on Federal agency internal controls.

***Financial Reporting Acceleration*:** The mission of this committee is to help agencies identify and eliminate common barriers to issuing their Performance and Accountability Reports, including the reporting of their audited financial statements by the November 15 deadline. While the committee assists agencies in accelerating their annual reporting processes, it provides the greatest value by increasing agency awareness of common problems and their solutions, providing a forum for their discussion and resolution, and providing a key interface with the audit community on areas of mutual interest.

***Financial Systems and E-Government*:** This committee actively helps to improve Federal financial systems and reporting by championing systems that produce data needed to efficiently and effectively manage the day-to-day operations of the Federal Government, as well as promote the standardization of financial data and the elimination of redundant Federal financial systems. This past year, the committee participated in a number of key initiatives designed to transform the way the Federal Government as an enterprise deploys and uses information technology (IT). The committee also participated in the "Line of Business Initiatives" for financial management and back office grants management, which are developing supporting information systems architectures for the future.

***Improper Payments*:** This committee continues to assist agencies in identifying and eliminating improper payments within their programs and activities. Additionally, it has helped agencies prepare for the challenges of meeting the requirements of the Improper Payments Information Act (IPIA) by

developing a standard format for IPIA reporting requirements and guidance for measuring improper payments in large and complex programs.

***Performance Measurement*:** This committee is designing and developing a performance measurement system based on key financial management indicators that will allow government managers and other stakeholders to assess the financial management performance of both the Federal Government as a whole and each individual agency.

(For additional information on the CFO Council committees, please refer to the 2004 Federal Financial Management Report, located at www.whitehouse.gov/omb/financial.)

Today's CFO

Today's CFO is not the CFO of the past. Successful CFOs possess not only financial acumen and subject expertise, but have the full range of leadership skills that are found in CFOs of well-run private sector financial management organizations. To be effective in the expanded areas for which they are responsible, these financial executives and their offices have a comprehensive understanding of both the operational and strategic missions of their agencies. All of these characteristics support the objective that agencies and the American citizens deserve decisions that are informed by accurate and timely financial information and that programs are executed in an environment of robust control and cost consciousness.

Thank you for your time. I am happy to entertain any of your questions.

U.S. GOVERNMENT
CHIEF FINANCIAL OFFICER ORGANIZATIONS

SURVEY OF FUNCTIONS

	Budget Formulation	Budget Execution	Financial Operations and Analysis	Financial Systems Only	IRM (including financial systems)	Personnel	Procurement	Grants	Performance Management
PAS CFO* Agencies									
1. Agriculture		•	•	•				•	•
2. Commerce	•	•	•	•		•	•	•	•
3. Defense	•	•	•	•					•
4. Education			•	•			•	•	
5. Energy	•	•	•	•		•	•	•	•
6. HHS	•	•	•	•	•				•
7. HUD	•	•	•	•					•
8. Interior	•	•	•	•		•	•	•	•
9. Justice	•	•	•	•	•	•	•	•	•
10. Labor		•	•	•					
11. State	•	•	•	•					•
12. DOT	•	•	•	•					•
13. Treasury	•	•	•	•	•	•	•	•	•
14. VA	•	•	•	•			•	•	•
15. EPA	•	•	•	•					•
16. NASA	•	•	•	•				•	•
Career CFO Agencies									
17. USAID		•	•	•					
18. DHS	•	•	•	•					•
19. GSA	•	•	•	•	•				•
20. NSF	•	•	•	•			•	•	•
21. NRC	•	•	•	•					•
22. OPM	•	•	•	•	•	•	•		•
23. SBA	•	•	•	•					•
24. SSA	•	•	•	•			•	•	

* CFOs Presidentially Appointed with Senate Confirmation.

Survey Conducted by DOL-OCFO: January 2003
(Revised as of October 17, 2003)

Mr. PLATTS. Mr. Kinghorn.

Mr. KINGHORN. Thank you, Mr. Chairman and Mr. Towns.

As President of the National Academy of Public Administration, an independent, nonpartisan organization chartered by Congress to give trusted advice to public leaders, I'm pleased to appear before you today and give you my perspectives as to the impact of the CFO Act. The views presented today are my own and are not necessarily those of the Academy as an institution.

Shortly before the enactment of the CFO Act, I was recruited to become the first Controller and CFO of the Internal Revenue Service. IRS, like other Federal agencies, was not required to prepare financial statements. Yet the CFO Act named the IRS as one of the first pilots to undergo the financial statement preparation and auditing process. It's not often remembered that the first agencies that went through this were pilots because it wasn't clear this could be done in the Federal Government.

The IRS, like the other organizations, was quite unprepared for this when I arrived, demonstrated by the fact there were fewer than five accountants in the newly created CFO office, six non-integrated regionally controlled accounting systems for the appropriated accounts as well as other significant shortcomings.

Fast forward 14 years to the present day. And, as we have heard, there have been many significant both strategic and operational successes, but I would like to share you my perspective having been a CFO and been at OMB prior to the creation of the controller organization.

First, the quality of CFOs at the departmental level is high, very high in my mind, and CFOs have the ear of the political leadership. At the most fundamental level, quality and effectiveness of these processes do begin with people. In 1990, there was considerable debate whether the CFOs at the departmental level should be political and whether deputies should be careerists. That approach proved to be the outcome and I believe it has served us exceedingly well. I believe the qualification listing contained in the CFO Act, coupled with the significant responsibilities listed in that act as well as others, have really created an environment in which only individuals with strong financial management qualifications are now likely to ever become a departmental CFO.

The integrity and usefulness of financial data has greatly improved. That most departments and many bureaus have received unqualified opinions on their financial audits does mean there is improved integrity in those data. Such success lays a strong foundation for enabling increased use of financial data for complex decisionmaking.

Third, the CFO has moved from the back room to the board room. CFOs now have a place at the management table. There clearly is value in having a statutory basis for such broad spans of authority. The act's requirement that the departmental CFO report directly to the agency head has also helped to enable the CFO to move from the back room to the government's version of the board room. The impact has been healthy and often has occurred at the operating bureau level.

And, fourth, CFOs are positioned to be key players in departmental decisionmaking, probably the fundamental important issue.

The authorities contained in the CFO Act and related acts have given increasingly powerful authorities to the CFO to integrate financial and programmatic information to improve agency operations. Not all CFOs have the internal organizational authorities to accomplish all this, but I believe they are placed well to do so.

What are the remaining issues facing us in the next decade?

First, we need to recognize that management functions must be reintegrated. There has been an increasing statutory balkanization of the Federal Government's management functions. Although the Chief Information Officer and the Chief Human Capital Officers have more recent statutory authorities and framework, neither is as powerful or as prescriptive as the CFO Act. In my mind, they should not be. I believe financial management is the most central and potentially integrating function in management. But all management operations need to be more unified. Even within the CFO world itself, there is a wide array of CFO responsibilities even at the departmental level, and I think that inconsistency needs to be examined. The management issues today are so much more complex, systems so much broader in their impact that there needs to be an integrating management focus short of the Secretary or agency head. In my mind, the CFO or perhaps an Under Secretary of Management/CFO might be the solution.

Second, we need to leverage our financial management investments to focus on what is really more important in my mind and that is internal performance. We need to focus as much in improving decisionmaking at the program operational level as we have for accounting. We have invested hundreds of millions of dollars in improving financial operations, and it has now moved beyond improving those accounting operations, and ensure that financial and administrative systems are utilized to help investment decisionmaking in our core programs. I believe one tool to accomplish this objective is managerial cost accounting, which I believe is the key mechanism that can link dollars spent and outputs and outcomes achieved. The governmentwide standards need to be fully implemented.

Third, CFOs need to take advantage of being at the table. We must ensure that CFOs are not only there but they know what to do once they are there. More CFOs need to see themselves and act as business partners with program operations. Many bureau CFOs come out of a particular discipline, usually accounting or budgeting like I did. Often their focus has been relatively narrow. And the CFOs need to see themselves and act as active players in improving broad organizational improvement, rather than a simple narrow discipline.

Finally, continuing attention by this committee and the administration is crucial. Departments and agencies still must undertake Herculean efforts to achieve unqualified opinions. Many have found it difficult to keep those clean opinions. Improvements in process systems and people must continue with the kind of oversight you have been given. Much of the focus of the CFO Act has been at the departmental level and on accounting process. I believe the next decade needs to be focused on the needs of the Program Manager at the operating bureaus and the operating level and the bureau CFOs, where increasing attention must be given to the utilization

of data in making decisions, not just simply reporting accounting transactions.

Thank you for allowing me to share with you my observations on the implementation of the CFO Act.

Mr. PLATTS. Thank you, Mr. Kinghorn.

[The prepared statement of Mr. Kinghorn follows:]

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Statement of

C. Morgan Kinghorn, Jr.

President

National Academy of Public Administration

Before the

U.S. House of Representatives
Committee on Government Reform

Subcommittee on Efficiency and Financial Management

September 15, 2004

Testimony of C. Morgan Kinghorn, Jr.
President
National Academy of Public Administration
Before the House Committee on Government Reform
Subcommittee on Efficiency and Financial Management
September 15, 2004

Mr. Chairman:

As President of the National Academy of Public Administration, an independent, non-partisan organization chartered by Congress to give trusted advice to public leaders, I am pleased to appear before you to provide you with my perspectives on the impact of the Chief Financial Officers (CFO) Act passed nearly fourteen years ago and the evolution and development of Federal CFOs. The views presented today are my own and are not necessarily those of the Academy as an institution.

Thirteen years ago, I was the U.S. Office of Management and Budget's Acting Assistant Director for Financial Management, the precursor to what is now the Office of Federal Financial Management. At that time, what was to become the CFO Act was being "debated" both within the administration and in Congress. That debate focused on many issues, including the placement of the government-wide CFO, the qualifications for Departmental CFOs and Deputy CFOs, their status as either political appointees or careerists, the role of financial statements and audits, and the agencies that should be the pilots to determine whether financial statements and audits could actually be accomplished within Federal agencies.

Shortly before the enactment of the CFO Act, I was recruited to become the first Controller and then CFO of the Internal Revenue Service (IRS). IRS, as with all or certainly most large Federal entities, was not required to prepare financial statements. Yet the CFO Act named the IRS as one of the first pilots to undergo the financial

statement preparation and auditing process in the Federal government. The IRS was quite unprepared for this when I arrived, demonstrated by the fact that there were fewer than five accountants in the newly created CFO office, six non-integrated regionally-controlled accounting systems for their appropriated accounts as well as other significant shortcomings. In fact, the U.S. Government Accountability Office (GAO) and the Inspectors General also had to gear up and prepare for their new roles. Furthermore, the Act called for a then-undeveloped series of accounting standards against which agencies would be audited. As a consequence, the next decade was one of learning, adapting, and many successes balanced by some notable failures.

Fast forward 14 years to the present day. Most departments and agencies, as well as the government as a whole, prepare financial statements and receive audits, either from the GAO, or more often their Inspector General, or private firms hired by either. Twenty of 23 cabinet-level agencies have received unqualified opinions. Hundreds of millions of dollars have been spent on new financial systems, training, and new personnel to achieve the major objectives of the CFO Act which is, in my mind, to bring credibility to financial and related information through which the government functions and to enable improved decision making with public resources. But, what have been the results in more practical terms as viewed by a 34 year practitioner? My bias regarding public governance favors creating clear lines of responsibility, providing broad and strong authorities to carry out those responsibilities, and minimizing the development and creation of management stovepipes that would confuse those clear lines of responsibility.

Let me share my perspectives on what the CFO Act and 14 years of concerted effort have enabled.

- **The quality of CFOs at the Departmental level is high and CFOs have the ear of the political leadership.** At the most fundamental level, quality and effectiveness all begin with people. In 1990, there was considerable debate whether CFOs at the Departmental level should be political and whether their deputies should be careerist. That approach proved to be the outcome and I

believe it has served us well. I have worked as a career deputy to several political CFOs in a large independent agency (EPA) and as a career CFO in a large bureau reporting to the IRS's politically appointed Commissioner directly but dotted-lined to the Treasury Department's political CFO. I believe the "qualification" listing contained in the CFO Act, which was strong but not too limiting, coupled with the significant responsibilities listed in the Act and other related statutes as well as Congressional oversight, have created an environment in which only individuals with financial management qualifications are likely to become Departmental CFOs. The Act's evolution toward placing CFOs in significant positions of authority has enabled Presidents to draw into the Federal financial environment very high quality leaders. In addition, as responsibilities have grown and stakes increased, Deputy CFOs at the Departmental level also have dramatically improved; they bring continuity, history, and a built-in learning system for new political leadership. At the bureau and operating agency level, I believe improvement in the quality of leadership remains an ongoing process.

- **The integrity and usefulness of financial data have greatly improved.** That most Departments and many bureaus have received unqualified opinions on their financial audits does mean there is improved integrity in those data. Such success lays a stronger foundation for enabling increased use of financial data for complex decision making within agencies and among stakeholders. Indeed, it builds an appropriate sense of public awareness that the Federal government operates its basic financial processes in a professional manner. Most important, more credible and available data enable the next crucial step: integration of financial and programmatic data for performance evaluation.
- **The CFO has moved from the back room to the board room.** CFOs now have a place at the management table. There clearly is value in having a statutory basis for such broad spans of authority. The Act's requirement that the Departmental CFO report directly to the agency head has helped to enable the CFO to move from the back room to the government's version of the board room. The impact has been healthy and often has occurred at the operating bureau level. This organizational placement frequently—but not always—permits good things to

happen, and it is unlikely that many financial management improvements would happen as quickly without this statutory foundation.

- **CFOs are positioned to be key players in Departmental decision making.** The authorities contained in the CFO Act, the Clinger-Cohen Act, the Government Performance and Results Act and others have given increasingly powerful authorities to the CFO to integrate financial and programmatic information to improve agency operations. Not all CFOs have the internal organizational authorities to accomplish this, but they can better position themselves to improve agency decision making based on improved financial information integration if they effectively utilize the statutory mandates contained in these Acts.

So, what are the challenges that still face Federal Departments and agencies when improving their financial operations and advancing the cause of better decision making?

- **First, we need to recognize that management functions must be re-integrated.** There has been an increasingly statutory balkanization of the Federal government's management functions. Although the Chief Information Officer (CIO) and Chief Human Capital Officers (CHCO) have more recent statutory authorities and framework, neither is as powerful or prescriptive as the CFO Act. In my mind, they should not be. I believe financial management is the most central and potentially integrating function in management. But, all three crucial management operations need to be more unified and less balkanized. My biases are clear: Whatever model we wish to create for the future should rely on a single management operation, comprising these three operations and reporting to the Secretary. Some CFOs operate as the CFO and in effect the Chief Management Officer. That is an excellent model. Yet there is a wide array of CFO responsibilities even at the Departmental level; this inconsistency should be examined closely with the objective to consolidate authorities so that CFOs in Departments and large agencies and bureaus have the broadest financial management responsibilities possible and a leadership role as the integrator of

management. An Under-Secretary for Management might be an answer to the consolidation of all management functions short of the Secretary or Agency head.

- **Second we need to leverage our financial management investments to focus on internal performance.** We need to focus as much on improving decision making at the program operation level as we have for accounting. We have invested hundreds of millions of dollars on improving financial operations. However, we must move beyond improving accounting operations, speeding up payments, and providing financial reports concentrated on external audiences, primarily auditors. We need to better ensure that CFOs utilize their investments in people, processes, and very expensive systems to improve program analysis and evaluation throughout their organizations. We need to leverage these investments to better understand the cost, efficiency and benefits of programs. The CFO can and must provide the tools and information—in conjunction with program operations—for improving program decision making. Managerial cost accounting, which I believe is the key mechanism linking dollars spent and outputs and outcomes achieved, needs to be implemented with a vengeance in the Federal government. The standards have been in place for about a decade yet there has been little or no progress in their full implementation. It is important, also, that this work be focused on the operating bureaus although with appropriate guidance and structure from the Department level.
- **Third, CFOs need to take advantage of being at the table.** We must ensure that CFOs are not only at the table but that they know what to do once they are there. Many bureau CFOs come out of a particular discipline, usually accounting or budgeting. Often their focus has been relatively narrow. As they find themselves in a position of significantly broader authority, they need to understand the power and potential benefit of being an active player in improving broad organizational improvement, rather than a simple narrow discipline. Through oversight during the CFO selection process, more thought should be given to the applicants' abilities to move beyond what might otherwise be narrow technical specialties.

- **Finally, continuing attention by this Committee and the Administration is crucial in maintaining the momentum of the successes of the past 14 years.** Departments and agencies still must undertake Herculean efforts to achieve unqualified opinions. Continued improvements in process, systems and people must continue with appropriate oversight before and after that is financially supported. There remains a long way to go to achieve more seamless integration of financial and program data to better understand organizational performance. But, nothing is more crucial then the type of senior management attention that this Committee and this Administration have given to what too often appears the more mundane operations of government: financial and program management.

Thank you, Mr. Chairman, for allowing me to share with you my observations on the implementation of the CFO Act.

I will be pleased to respond to any questions you may have.

Mr. PLATTS. Mr. DeSeve.

Mr. DESEVE. Thank you very much, Mr. Chairman.

Before I start, I came in 1993 to the Federal Government as the Chief Financial Officer of the Department of Housing and Urban Development and was honored to have Linda's job as Controller at OMB and then as Deputy Director. During that time, my official residence was in Monroe County, PA. I was born and spent 23 years in Albany, NY.

Let me not read my testimony, because you have copies of it, but make two or three points.

First, the CFO function has evolved over time, and I think the stewardship of this committee can begin continuing its next evolution. When the CFO function was put in place, it focused very narrowly on audited financial statements, and then it focused on financial systems, because you couldn't have financial statements without good information and couldn't have good information without good systems. Those went hand in hand.

At the same time, additional laws began to come into play, the Debt Collection Improvement Act, the Federal Financial Managers Information Act, those in the context of the CFO Act as well as Clinger-Cohen and FASA and FARA. We began having a burgeoning set of—I hate to use this word because it is a Federal word—stovepipe legislation, which were integrated often at the level of the CFO.

What was really important and exciting to me as I worked as a CFO and with CFOs is the interaction about real things.

Today, Secretary Rod Paige talked about the great decline in delinquency rates and default rates of the student loan program. He said the default rate was down around 5 percent. That may still sound too high, but we have all seen rates in the teens in that program. That was not exclusively but largely as a result of attention paid by OMB, which continues to be paid by OMB—Linda, I try to be seamless here—as between generations of OMB.

I think of people like Kathy Stack, for example, in a program site at OMB working assiduously with the financial people, the CFOs at the agency levels and the subagency level in the Department of Education to create an important program, the Direct Lending Program, and bring financial integrity to it.

That is the evolving role of the CFO. It is beyond financial statements, and it is even beginning to be beyond, to some extent, just implementing GPRA to getting results. What are the results? What do they matter for the American people and how can we understand the proper communication of those results within a financial context? Are we doing the right things, doing them well and efficiently?

So I think it is a good time for this committee to step back and look broadly at things like internal control. I understand the committee is moving in that direction.

One of the questions that people have asked me, including our former Deputy Counsel to the White House is, well, isn't Sarbanes-Oxley, if imposed on the Federal Government, going to create serious problems? The answer is no. It is quite the reverse.

If you look at the structure of reporting and analysis that goes on within the Federal Government, it is beyond the standards, I

believe, imposed by Sarbanes-Oxley. The number of times when I had to talk to the Cabinet Secretary about his need to sign off on a particular internal control report were great when I was the CFO. This is a time when HUD was plagued by scandals, and those scandals related to improper management of assets. So it wasn't about audited financial statements but about apartment buildings in Chicago that were vacant because there were improperly administered loans by the Department of Housing and Urban Development that led to the rundown nature of those properties.

So the CFO Act needs to be more real. It needs to have more of an emphasis on reality.

In terms of its organizational structure—I'm sorry—an evolving emphasis on reality.

In terms of its organizational structure, I strongly support the chief operating officer model where there is a chief operating officer at the deputy secretary level. One size doesn't fit all.

I'm on the Business Advisory Board of the National Science Foundation. The National Science Foundation, while an important grants-making agency, doesn't have a significant base of financial or real property assets. The O&M responsibility, although significant, is not a big factor there. It's more being able to set GPRA kind of performance measurements for the grants and make sure that the grantees, both in terms of financial integrity and performance, meet those standards.

One set of rules for NSF and another set of rules for the Department of Education in terms of the role and the organizational structure is OK with me. The statute itself was ambiguous. It was ambiguous on budget development and on reporting relationships. We spent a lot of time trying to organize the relationships in various agencies and departments. So I think the committee allowing some flexibility within a single point of accountability at the secretary's office, if there is an Under Secretary of Management tradition as there is in the State Department, so be it, I can live with that. We want to see the functions of the CFO broad and evolving to meet real program needs and real things the American people care about.

Thank you very much.

Mr. PLATTS. Thank you, Mr. DeSeve.

[The prepared statement of Mr. DeSeve follows:]

Testimony of G. Edward DeSeve
Professor University of Maryland School of Public Policy
Sub-Committee on Government Efficiency and Financial Management
Committee on Government Reform
September 15, 2004

Thank you for inviting me here today to testify regarding the evolution and development of the Chief Financial Officers Act as well as the organizational standing and authority of Chief Financial Officers.

Evolution and Development of the CFO Function

My perspective comes from having served in state and local government as well as the federal government and the private sector. In each of these areas, the role of Chief Financial Officer is central to planning, assuring results and managing resources and assets. The Chief Financial Officers Act of 1990 codified these responsibilities within the federal government as follows:

"Provide for improvement, in each agency of the Federal Government, of systems of accounting, financial management, and internal controls to assure the issuance of reliable financial information and to deter fraud, waste, and abuse of Government resources." (Section 102 (b)2)

This was both a broad and ambiguous charge. The lack of inclusion in Section 902 "Authority and functions of agency Chief Financial Officers" of specific authority to compile and oversee execution of agency budgets led to significant discord between agencies and the Office of Management and Budget. Many in Congress, especially in Appropriations Committees, argued that the CFO's duties need not include budgeting. OMB argued otherwise and agencies typically chose the course of action that was most conducive to their own designs.

Also ambiguous was the phrase, "report directly to the head of the agency regarding financial management matters". Did this mean that the individual did not report to the head of the agency on other matters? OMB attempted to solve this ambiguity by suggesting that reporting to the "Office of the Secretary" was sufficient to meet the standards of the Act. Thus, most CFO's in the CFO Act Agencies were of Assistant Secretary rank (PAS IV). This often led to conflict with existing Assistant Secretaries for Management and Budget (ASMB) who saw themselves as the Chief Management Officers of Departments.

These issues are largely behind us today. Accommodations have been made and accepted. For example, The Department of State designated the Under Secretary for Management as the Chief Financial Officer. One size did not fit all and the execution of the functions proved more important than the purity of organizational design. Over time, the overwhelming majority of CFOs gained the budget function and the office of ASMB

became less common especially with the passage of the Information Technology and Management Reform Act of 1995 and the recommendation by the National Performance Review in 1993 that Deputy Secretaries take on the responsibilities of Chief Operating Officers. The Deputy Secretaries role was further reinforced by the creation of the President's Management Council which has continued during the current administration.

Focus on Functions

The starting point for implementation of the CFO Act was a focus on producing audited financial statements and achieving a clean audit opinion. This came from the provisions of Section 303 of the Act which focused on agency financial statements. This focus was heightened by the Government Management Reform Act of 1996 which added the requirement for a government-wide financial statement audited by the General Accounting Office.

Manpower and system resources were dedicated to the auditing function to the detriment of other functions such as the development of budget and performance tracking systems. However, the rise of the "integrated financial system" offered the promise that comprehensive financial information could be produced for multiple purposes. Many agencies moved from old transaction processing systems to the new integrated systems as a means of achieving automated financial statement data integration. This succeeded the "heroic" manual processes that early on had been used to obtain clean audit opinions.

If the first two functions undertaken were producing financial statements and implementing new financial systems, many agencies found that tracking assets was an additional burden that they were ill prepared to address. This was true of both physical assets and financial assets. Here operational managers became more involved. The assertion by the General Accounting Office (GAO) that the Defense Department had "lost" vessels and aircraft engines stirred action to tie physical inventory systems to financial systems. More importantly, the Debt Collection Improvement Act of 1996 added emphasis on the stewardship responsibility for financial assets. Together with the work of the Federal Credit Policy working group, DCIA began focusing CFO's on the function of managing large portfolios of financial assets. This was particularly true in credit granting agencies such as Housing and Urban Development, Agriculture, Veterans Affairs and Education.

The process of developing financial statements identified the poor internal control of financial assets and DCIA provided both sanctions and tools to deal with the true cost to the federal government of poor stewardship. An example was the multi-family loan portfolio at the Department of Housing and Urban Development (HUD). The first step in dealing with the problems of this portfolio was to properly characterize the value and conditions of the assets. In other words, HUD did not know the value or the condition of the buildings that were guaranteed or financed under its various programs. The CFO's office worked closely with the program office to develop a proper monitoring program for the portfolio. This lead to the ability to sell the assets to the public as provided for in

DCIA. This proved an expeditious way to get them off the federal books as a liability and allowed the properties to become community assets.

CFOs also were actively involved in assuring proper operation of new programs. The William D. Ford Federal Direct Loan Program of the Department of Education was initiated under the financial aegis of the Chief Financial Officer of the Department of Education It was the largest federal loan program enacted subsequent to the passage of the Credit Reform Act of 1990 and its initial implementation led to significant concern as reflected in the General Accounting Office High Risk Series Report of 1997.

While this concern has not entirely evaporated, establishment of the Federal Student Aid Performance Based Organization (PBO) and setting up a Chief Financial Officer within that PBO has provided focused leadership which has led to the decline in default rates and has helped the program to operate on a negative subsidy basis. A validation of improvement in financial management by the Federal Student Aid PBO is found in the March 2004 report of GAO entitled, "Department of Education's Federal Direct Loan Program: Status of Recommendations to Improve Cost Estimates and Presentation of Updated Cash Flow Information." This report reflects the progress made since an earlier 2001 GAO report regarding the program's credit subsidy reporting status .

In summary, CFOs have been shifting their focus from audit to management of assets and other stewardship activities. Further shifts are already underway in regard to implementing initiatives to track resources and results. The aggregate of these initiatives begins to mirror the functions found in private sector CFOs where the bottom line is both the income statement and the balance sheet.

Structure for the Future

The implementation of Chief Information Officers, Chief Human Capital Officers, Chief Procurement Officers as well as CFOs within agencies has led some to call for the integration of these functions, as in the past, under a Chief Management Officer. Indeed, GAO itself has such a "Chief Mission Support Officer". While this may be appropriate for agencies which have few tangible assets or do not handle large volumes of financial transactions, many agencies will want a CFO who reports directly to the Office of the Secretary and who plays a central role in working with the program managers.

In my opinion, the Deputy Secretary should be the Departmental Chief Operating Officer and the appropriate program as well as management officials should report to her or him. While there are many variants on organizational design, the COO concept has the great advantage of creating a single nexus of responsibility that can resolve program, policy and resource issues. The CFO should report directly to the COO who is acting for the Secretary or other most senior officer. The same is true for the other offices listed above. If a CFO with statutory responsibility is required to report through a management officer, their effectiveness and authority is likely to be diluted.

In some departments, such as Treasury, a second tier of CFO's in operating units has proved an effective way of managing the Department. While each of these CFOs reports to the program head, there is a dotted line relationship to the agency CFO. Often the agency CFO shares in the performance rating process of program level CFOs. In addition, department level CFO Councils have grown up to resolve common problems and to work on creative solutions to both financial and program issues. This depth of organization leads to a stronger central office and stronger programs. The depth of talent in the finance function is similarly enhanced.

That said most formal structures give way quickly to informal structures. I believe that the emergence of the concept of network management will ultimately render hierarchical organization charts obsolete. CFOs themselves are a primary example of the benefits of network management. The CFO Act established the Chief Financial Officers Council (CFOC) chaired by the OMB Deputy Director for Management. Initially, the Council was a transmission device where OMB could broadcast instructions to the CFO community. In the summer of 1993 this changed. Then OMB Director Alice Rivlin, at the urging of the CFO community, empowered the Council and gave its Vice Chair significant responsibilities to create a charter, convene the Council and take action on various matters concerning the community. At the same time, the Deputy CFOs were included as full member of the Council. This had the effect of directly involving the senior career staff who provide continuity across administrations into the decision making process.

Currently, the CFOC is undertaking initiatives in Erroneous Payments, Financial Statement Acceleration and Performance Measurement. OMB and Treasury are working closely with the Council to assure that the authority of the central agencies is used in a way that leverages the activities of each of the member CFO agencies to produce results. To quote the Council's Vision Statement they seek to succeed in "Shaping an environment in which government officials use high quality financial and performance information to make and implement effective policy, management, stewardship, and program decisions."

If, as George C. Marshall said, "The price of peace is eternal vigilance", the price of continued success in financial management is strong oversight and support for CFOs in agencies. This will allow them to work within their agencies and with central agencies as agents for positive change. As Comptroller General David Walker said in his testimony on March 3, 2004 this Committee has, "been a catalyst to facilitate government management reform." Your continued vigilance will go a long way toward continued progress in financial management.

Mr. PLATTS. Dr. McMurtry.

Ms. MCMURTRY. Mr. Chairman, thank you for the invitation to testify at this hearing.

A rewarding aspect of working at CRS over the years is to follow a major reform measure such as the Chief Financial Officers Act through the legislative process to assess initial implementation and then to continue tracking subsequent developments. My testimony reflects this institutional memory perspective, rather than the expertise as a financial management practitioner as reflected among others on the panel. The written statement was intended to provide a historical background on the CFO role and to highlight important developments affecting the evolution of the CFO position and agency management. I will note some of the key points from my statement.

The 23 chief financial officers established by the 1990 law constituted an important group of new actors in the leadership structure for Federal financial management. To promote their accountability, the CFOs serving in the Cabinet departments and two other major agencies were to be appointed by the President and confirmed by the Senate. All the CFOs were to report directly to the secretary or agency head.

The CFOs are responsible for all financial management operations, activities and personnel in their agency. Among other things, the CFOs are to produce financial information, establish integrated financial management systems and monitor budget execution.

While all the CFOs share the same broad statutory responsibilities, the roles of the CFOs in the organizational structure of the respective agencies differ considerably. The broad duties for the agency CFOs conferred by the 1990 law have been augmented by subsequent amendments and related legislation, as already has been noted.

The CFO Act provided for an interagency Chief Financial Officers Council to advise and coordinate activities on a wide variety of financial management issues. In the mid-1990's, the Council was revitalized with adoption of a charter that expanded membership to include the 23 career deputy CFOs and also approved the creation of four new Council officer positions, provided for the establishment of the standing committees for the first time and stipulated that, henceforth, meeting agendas were to be set by the Council officers rather by OMB alone.

From 1995 to 2000, the annual financial management reports as required by the 1990 law were issued jointly by OMB and the CFO Council. As recounted in the report during this period, priorities for Federal financial management were being set with considerable CFO Council involvement. From 1995 to 1999, the reports included a table reflecting CFO organizations and the agencies. In 1999, the agencies reported that all agency CFOs exercise managerial responsibility over finance operations and analysis and, at that point, 23 were responsible for financial systems and 20 had responsibility for budget formulation and execution.

Previously, in 1997 and some other years as well, the data presented on CFO organizations was broken down in greater detail to indicate other management functions performed by the CFOs. This

is included in Table 1 on page 5 of my statement. And here we saw as early as the mid-1990's some of the CFOs were responsible for implementation of GPRA in 14 agencies. They performed procurement functions in 10, and at that point 8 CFOs had grants management responsibility. Less common were personnel responsibilities and the information resource management role outside the financial systems.

Data from recent studies have already been cited in previous testimony, and things have changed somewhat in terms of the CFOs performing more of the major roles. From 2002 to 2004, the CFO-mandated financial management reports increasingly have reflected the priorities of the Bush administration's management agenda. One of five governmentwide initiatives is improved financial performance. The CFOs play a major role as their agencies strive to meet the criteria to get to green on the scorecard.

The CFOs and the Council are involved with the budget and performance integration initiative. With OMB focusing on and providing leadership for the initiatives and the agenda, the roles of the CFOs and the CFO Council continue to develop. The CFO Act created the agency CFOs as a distinct group of Federal financial management officials with their own accountability, not just a group of supportive officials following directives from OMB. The evolution of the relationship between the agency CFOs and the CFO Council and the leadership of OMB will likely continue to be of interest for purposes of congressional oversight.

If I may take a couple of more minutes, I would like to offer some brief observations on the CFO in the Department of Homeland Security. The Homeland Security Act of 2002 provided for a CFO position in the new Department. But, unlike the appointment procedure for CFOs in the other Cabinet-level departments, the CFO in Homeland is appointed by the President but is not subject to Senate confirmation.

The law also made no reference to the CFO Act itself or to Chapter 9 of Title 31 where the CFO duties are codified. Likewise, there was no mention of membership on the CFO Council. The CFO in Homeland presently reports to the Under Secretary for Management.

One version of the Department of Homeland Security Financial Accountability Act, S. 1567, which would bring the CFO for DHS directly under the CFO Act passed the Senate under unanimous consent last November. A related bill, H.R. 4259, was approved by the House under suspension of the rules on July 20, 2004.

Supporters of the DHS Financial Accountability Act contend that the CFO Act and related laws should apply consistently across the executive branch and that the unequal status currently accorded the CFO in DHS degenerates the CFO position and the importance of financial management in DHS. The CFO position with its fiduciary responsibilities carries with it special needs for accountability, which Senate confirmation reinforces. In short, those in favor of bringing the CFO in DHS directly under the CFO Act argue that confirmation is important, that reporting directly to the secretary is significant and that statutory symmetry, including membership in the CFO Council for all Cabinet-level CFOs, is desirable.

A Senate amendment was filed last week to add the text of H.R. 4259 to the Homeland Security Appropriations Act, but the amendment was not offered on the floor. It is my understanding that the House-passed version of the DHS Financial Accountability Act has now been cleared in the Senate, and H.R. 4259 will likely be brought up under unanimous consent on the Senate floor in the near future.

Thank you.

Mr. PLATTS. Thank you, Dr. McMurtry.

We were hoping to have gotten word by the time you finished your testimony to say it has been, but H.R. 4259 is apparently scheduled or to be scheduled here in the very near future and to be sent to the President.

[The prepared statement of Ms. McMurtry follows:]

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Statement of Virginia A. McMurtry Congressional Research Service before the Subcommittee on Efficiency and Financial Management House Committee on Government Reform September 15, 2004

Mr. Chairman and members of the subcommittee, my name is Virginia McMurtry and I am a Specialist in American National Government with the Congressional Research Service in the Library of Congress. Thank you for the invitation to testify at this hearing on the evolving role of Chief Financial Officers (CFOs) in the federal government.

A rewarding aspect of working at CRS over the years is to follow a major reform measure, such as the Chief Financial Officers Act of 1990, through the legislative process, to assess initial implementation, and then to continue tracking subsequent developments relating to the law, including amendments. My comments here today reflect an "institutional memory" perspective, rather than expertise as a financial management practitioner. The testimony is intended to provide historical background on the CFO role and highlight developments affecting the evolution of the CFO position in agency management. As you requested, I conclude with some brief observations from my recent study of the CFO position in the Department of Homeland Security.

Establishment of the CFO Framework

The Chief Financial Officers (CFO) Act of 1990[i] sought to improve financial management practices by establishing a new leadership structure for federal financial management. The framework created by the law includes two new positions within the Office of Management and Budget and 23 chief financial officers (CFO) and deputy CFOs in major executive departments and agencies.[ii] Of the 23 CFO positions, 16 are filled by presidential appointees, who are confirmed by the Senate. CFO positions subject to confirmation include those in the 14 cabinet-level departments (excluding the Department of Homeland Security or DHS), the Environmental Protection Agency, and the National Aeronautics and Space Administration. The remaining seven CFO positions (for the Agency for International Development, General Services Administration, National Science Foundation, Nuclear Regulatory Commission, Office of Personnel Management, Small Business Administration, and Social Security Administration), along with all 23 deputy CFO positions, are career positions, filled by agency head appointment.

The 23 CFO positions for the major executive departments and agencies constituted an important component in the new leadership structure for federal financial management established by the CFO Act. As noted in a House report accompanying the legislation, "These [agency CFO and Deputy CFO] positions are an integral part of the reform process because the individuals filling them

will form the network needed to undertake government-wide financial management reform, maximizing the sharing of successes while minimizing duplication of effort."[iii]

The 1990 law required that agency CFOs be selected from "individuals who possess demonstrated ability in general management of, and knowledge of and extensive practical experience in financial management practices in large governmental or business entities." Qualifications for deputy CFO positions included "demonstrated ability and experience in accounting, budget execution, financial management analysis, and systems development, and not less than 6 years practical experience in financial management at large governmental entities" (both standards excerpted from P.L 101-576, Sec. 205).

Section 205 of the 1990 law provided for the establishment of agency CFOs and delineated their functions (subsequently codified at 31 U.S.C. 902). Each of the 23 agency CFOs reports directly to the agency head and is responsible for all financial management operations, activities, and personnel. "Financial management" is broadly conceived to encompass a variety of duties for the CFOs, such as producing financial information, establishing an integrated financial management system, developing cost information, and conducting systematic performance measurement. The agency CFOs are to develop financial management budgets, supervise asset management, produce financial reports, and monitor budget execution. Their personnel functions include recommending Deputy CFOs, recruiting financial management staff, and overseeing training.

The CFO Act further required that agency heads undertake a review of their financial management activities "... for the purpose of consolidating [the agency's] accounting, budgeting, and other financial management activities under the agency Chief Financial Officer...." (Section 206). Following this review, agency heads were to submit a reorganization proposal for OMB approval that described the functions, powers, duties, personnel, property, and records over which the CFO was to have authority, along with a detailed outline for the administrative structure of the agency's CFO office. In a 1991 memorandum to CFO Act agency heads, conveying guidance for preparing these organization plans, an OMB official suggested that the plan "should concentrate on specifying the CFO's authorities to carry out the purposes of the CFO Act and improve financial management generally. Each Department or agency will have different organizational ways of doing this."[iv] While all the CFOs share the same broad statutory responsibilities, the roles of the CFO in the organizational structure of the respective agencies are not identical, as examined further below.

CFO Act Spawns More Reforms and Expansion of CFOs' Role

Amendments to the CFO Act have created additional statutory responsibilities for agency CFOs in federal management. For example, in 1993 the Government Performance and Results Act (GPRA) built upon agency financial information mandated by the CFO Act. GPRA stipulated new performance measurement requirements, extending the initial language in the CFO Act regarding "systematic measurement of performance" for selected activities. [v]

Provisions in the Government Management Reform Act of 1994[vi] substantially expanded the requirements in the CFO Act for audited financial statements. Initially, under the CFO Act, all covered agency heads were to prepare and submit to OMB audited financial statements for each revolving and trust fund and for accounts that performed substantial commercial functions. In addition, a three-year pilot program (eventually involving 10 of the original 23 agencies) commenced, requiring preparation of audited financial statements for all agency accounts. The 1994 amendments extended the requirement for audited financial statements covering all accounts to include all 23 CFO agencies. Beginning in 1997, and annually thereafter, the agency head is to submit to the OMB director "an audited financial statement for the preceding fiscal year, covering all accounts and associated activities of each office, bureau, and activity of the agency."

The CFO Act also provided a foundation for the Federal Financial Management Improvement Act (FFMIA) of 1996, [vii] which incorporated into statute certain financial system requirements already established as executive branch policy. The FFMIA established a general requirement for CFO agencies to "implement and maintain financial management systems that comply substantially with federal financial management system requirements, applicable federal accounting standards, and the United States Government Standard General Ledger at the transaction level." The 1996 law requires auditors to report on agency compliance with these requirements, and agency heads to correct deficiencies within certain time periods.

Other statutory changes include the creation of new CFO positions. These additions, however, differ somewhat from the group of the 24 CFO positions previously established. In 1993, the law creating the Corporation for National and Community Service (CNCS) provided for a Chief Financial Officer, to be appointed by the President, with advice and consent of the Senate; the listing of duties for the CFO includes some language identical to that found in 31 USC 902, but other provisions are not the same.[viii] In 1999, a provision in the Treasury and General Government Appropriations Act, 2000 created the position of Chief Financial Officer within the Executive Office of the President (EOP), to be appointed or designated by the President, with the same authority and duties as other CFOs "to the extent the President determines appropriate and in the interests of the United States."[ix] Therefore, the CFO in the EOP is also distinct from those in the 23 CFO agencies at present, although the provisions were codified as a separate section of the CFO chapter.[x] The special status of the CFO in the Department of Homeland Security is addressed subsequently.

Strengthening and Expanding the Role of the CFO Council

The CFO Act provided for an interagency Chief Financial Officers Council, to be chaired by OMB's Deputy Director for Management, and initially consisting of the agency CFOs, the Controller of the Office of Federal Financial Management and the Fiscal Assistant Secretary of Treasury. According to Section 302 of the CFO Act, the Council was to "meet periodically to advise and coordinate activities of the agencies of its members" on various financial management issues. For various reasons, the Council got off to slow start, and, according to one account, "By the end of 1992, council meetings were reduced to briefings by staffers from OMB's [OFFM] ... , with minimal interest and support from the agency CFOs."[xi]

The arrival of a new administration in 1993 provided the opportunity to fill the agency CFO positions with new appointees whose backgrounds more closely matched statutory financial management qualifications for the CFOs.[xii] With the infusion of new members, actions commenced that led to eventual revitalization of the council. In March 1994, the CFO Council adopted recommendations for reform. Membership was expanded to include the 23 career deputy CFOs, to provide cooperation and continuity of effort beyond the generally shorter tenure of the CFOs (mostly political appointees). The council agreed to the establishment of standing committees or *ad hoc* groups to address priority areas, and approved the creation of four new council officer positions. Finally, the Council decided that in the future, meeting agendas would be set by the officers rather than OMB. These significant changes were formally incorporated in the council's charter, adopted by majority vote of the members on February 21, 1995.[xiii]

Evolving CFO Role as Reflected in the Annual Financial Managements Reports

The CFO Act required that OMB submit to Congress each year a Federal Financial Management Status Report and Five-Year Plan. Recently the 12th such report was issued in August 2004.[xiv] This series of reports review the accomplishments, current status, and plans for improvement of federal financial management. The reports thus offer a useful source of information for tracking the implementation of the CFO Act and the evolving roles for the agency CFOs and the CFO Council.

In May of 1994 the CFO Council drafted a vision statement for federal financial management, defined goals for implementing the vision, and strategies for achieving each goal. The four goals provide insight into the self- perception of roles to be played by the agency CFOs:

- to provide leadership to promote the efficient management of government resources and assets;
- to provide quality financial services to customers based on their needs;
- to provide complete and useful financial information on federal government operations which fully supports financial and performance reporting;
- to establish a government-wide framework to provide sound financial policies and services to facilitate effective communication.[xv]

The annual reports from 1992-1999 typically had the discussion organized around specific components necessary for financial management in the federal government. For example, in 1993 there were seven components identified as central in the administration of financial management: accountability standards, financial management organization, financial management personnel, financial systems, management controls, asset management, and audited financial reporting.[xvi] The 1995 report, the first to be prepared jointed by the CFO Council and OFFM in OMB, outlined eight priorities identified by the CFO Council: improve financial management systems, implement Government Performance and Results Act, issue accounting standards and financial statements, develop human resources and the CFO organizations, improve management of receivables, ensure management accountability and control, modernize payments and business methods, and improve administration of federal assistance programs.[xvii]

In the annual reports from 1995-1999, under discussion of the priority to "develop human resources and the CFO organizations," a table was included which indicated, for each of the 24 agencies, functions over which its CFO had some managerial responsibility. The information reflected the agency reorganization plans for consolidating financial management functions, mandated by the CFO Act, and as approved by OMB. **Table 1** below provides a depiction of data on the "Chief Financial Officers Organizations" as of 1997, and **Table 2**, as of 1999 (the last year this table appeared in the annual report).

In 1999 all 24 CFOs exercised managerial responsibility over finance operations and analysis. Twenty CFOs had responsibility over budget formulation and execution, and 23 CFOs were responsible for financial systems (seven more agencies than two years earlier as indicated in **Table 1**). Data on the CFO organizations in 1997 (see **Table 1**) included additional functions over which CFOs had some managerial responsibility. Finance operations and analysis (24), budget formulation and execution (20), and financial systems (16) represented the most widely held CFO responsibilities in 1997, followed by primary agency-wide responsibilities for GPRA implementation (13), procurement (10), and grants management (8). With regard to breadth of management responsibilities, Commerce and HHS each reported eight functions performed by the CFO in 1997, followed by Interior and Justice, with seven. AID was at the other end, where the CFO was only responsible for finance operations and analysis. In 1997 ten of the agencies reported four functional areas of responsible for their CFOs (but not always the same four).

Table 1. Chief Financial Officer Organizations as of 1997[a]

Department or Agency	Functions over which CFO has some managerial responsibility*											
	B	E	F	G	Gp	Gp-	I	O	P	Pr	S	Total
USDA			x	x	x						x	4
Commerce	x		x	x	x		x	x	x	x		8
Defense	x		x		x						x	4
Education			x	x						x	x	4
Energy	x		x								x	3
HHS	x		x	x		x	x	x	x	x		8
HUD		x	x		x						x	4
Interior	x		x	x	x		x		x	x		7
Justice	x		x		x		x	x	x	x		7
Labor	x		x								x	3
State	x		x								x	3
Transportation	x		x		x						x	4
Treasury	x		x		x		x	x	x	x		7
VA	x		x		x		x			x		5
AID			x									1
EPA	x		x		x						x	4
FEMA	x		x	x						x	x	5
GSA	x		x		x						x	4
NASA	x		x								x	3
NSF	x		x	x						x		4
NRC	x		x		x						x	4
OPM	x		x		x						x	4
SBA	x		x								x	3
SSA	x		x	x				x		x	x	6
Total	20	1	24	8	13	1	6	5	5	10	16	

[a] Adapted from table in 1997 *Federal Financial Management Status Report and Five Year Plan*, p. 33.

*Function Codes:

B	Budget formulation and execution	E	Budget execution only
F	Finance operations and analysis	G	Grants management
Gp	GPRA (primary agency-wide responsibilities)	Gp-	GPRA (except for Strategic Plan)
I	Information resources management office (CIO responsibility per ITMRA)		

0	Other	P	Personnel	Pr	Procurement
S	Financial systems only (excludes other system development by IRM/CIO)				

Table 2. Chief Financial Officer Organizations as of 1999[a]

Agency	Budget Formulation and Execution	Financial Operations and Analysis	Financial Systems
USDA		x	x
Commerce	x	x	x
Defense	x	x	x
Education		x	x
Energy	x	x	x
HHS	x	x	x
HUD	x	x	x
Interior	x	x	x
Justice	x	x	x
Labor		x	x
State	x	x	x
Transportation	x	x	x
Treasury	x	x	x
VA	x	x	x
AID		x	x
EPA	x	x	x
FEMA	x	x	x
GSA	x	x	x
NASA	x	x	x
NRC	x	x	x
NSF	x	x	
OPM	x	x	x
SBA	x	x	x
SSA	x	x	x
Total	20	24	23

[a] Table found in 1999 *Federal Financial Management Status Report and Five Year Plan*, p. 59. The table indicates whether CFOs for the respective agencies had responsibility for each of the three functions designated in the columns.

The 2000 financial report provided a retrospective on achievements in federal financial management during the first decade of the CFO Act, as well unfinished business remaining: "This [2000] report highlights how far Federal financial management has come in the past decade and describes additional improvements needed in the future."[xviii] An accompanying cover letter from President Bill Clinton commended the members of the CFO Council and observed that their accomplishments to date "have provided a strong framework for the next Administration to achieve even more progress in improving federal financial management in this new century...."[xix] A recent journal article reviewing the CFO Act's first decade characterized the evolving role played by agency CFOs as follows:

> ...the CFOs are no longer considered bean counters with green eye shades. Many have moved from a role of establishing and enforcing controls and tracking numbers to a role of providing financial services and fostering the improvement of business practices. They are attempting to have government business done faster and more accurately in a customer-driven environment.[xx]

The 2002-2004 financial reports increasingly have reflected the priorities of the President's Management Agenda, an ongoing effort in the executive branch for "improving management and performance in the federal government."[xxi] One of five government-wide initiatives coming under the rubric of the Agenda is improved financial performance,[xxii] which seeks to enhance the quality and timeliness of financial information available to the agencies and Congress. Other facets involve improving assets management, reducing improper payments, and strengthening controls over federal credit cards.[xxiii]

These three most recent financial reports also include discussion of the Executive Branch Management Scorecard used to measure progress on the five government-wide Agenda initiatives; the Scorecard previewed in the President's budget submission for FY 2003, with quarterly updates subsequently. The Scorecard uses a traffic light motif of green for success, yellow for mixed results, and red for unsatisfactory. For each initiative, there are multiple "standards for success," or core criteria which an agency must meet in order to get a green rating. The four core criteria for "getting to green" on the improving financial performance initiative comprise the following requirements:

- Financial management systems meet federal financial management system requirements and applicable federal accounting and transaction standards as reported by the agency head.
- Accurate and timely financial information.
- Integrated financial and performance management systems supporting day-to-day operations.
- Unqualified and timely audit opinions on the annual financial statements; no material internal control weaknesses reported by the auditors.[xxiv]

The leadership role of the CFOs as agencies strive to meet these core criteria is substantial. As of June 30, 2004, four agencies received green for financial performance.

Meanwhile, the CFO Council reorganized its committees in line with the priorities of the Agenda. For 2002-2003 there were six committees, including the Financial Statement Acceleration, Human Capital, Financial Systems and E-Government, Best Practices, Budget and Performance Integration, and Erroneous Payments committees.[xxv] The 2004 report described more committee restructuring for the CFO Council, "refreshing and updating its focus." New committees, such as the Financial Management Policies and Practices, "are actively engaged in studying emerging issues." Continuing committees such as Financial Reporting Acceleration remain "very influential in providing forums for sharing best practices and influencing OMB guidance."[xxvi] The reports for

2002, 2003, and 2004 include a description of each CFO Council Committee, its recent accomplishments, and plans for the future. The 2004 report specifically attributes the committee reports included to the respective chairpersons.

Summary

The 23 Chief Financial Officers, established by the CFO Act of 1990, constituted an important group of new actors in the leadership structure for federal financial management. To promote their accountability, the CFOs serving in the cabinet departments and two other major agencies were to be appointed by the President and confirmed by the Senate. All the CFOs were to report directly to the secretary or agency head, thereby elevating their stature and helping to ensure them a "seat at the table" in management decision-making.

The CFOs are responsible for all financial management operations, activities, and personnel. Among other things, the CFOs are to produce financial information, establish integrated financial management systems, and monitor budget execution. While all the CFOs share the same broad statutory responsibilities, the roles of the CFOs in the organizational structure of the respective agencies are not identical.

The broad duties for the agency CFOs conferred by the CFO Act in 1990 were augmented by subsequent amendments. The GMRA of 1994 extended the initially limited requirements for audited financial statements to cover all agency accounts for the CFO agencies, creating an important new responsibility for agency CFOs. The CFO role expanded again with the FFMIA in 1996, which required agencies to implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the federal government's standard general ledger at the transaction level.

The CFO Act provided for an interagency Chief Financial Officers Council to advise and coordinate agency activities on a variety of financial management issues. In the mid-1990s the council was revitalized, with adoption of a charter that expanded membership to include the 23 career deputy CFOs, approved the creation of four new council officer positions, provided for the establishment of council standing committees to address priority areas, and stipulated that henceforth meeting agendas would be set by the council officers rather than by OMB.

From 1995-2000 the annual financial management reports were issued jointly by OMB and the CFO Council. As recounted in the annual financial management reports during this period, as required by the 1990 law, priorities for federal financial management were being set by the CFO Council. From 1995-1999 the reports included a table reflecting "CFO Organizations" in the agencies. In 1999 agencies reported that all 24 CFOs exercised managerial responsibility over finance operations and analysis. By then 23 CFOs were responsible for financial systems, and 20 had responsibility for budget formulation and execution. The 2000 report

provided retrospective on achievements in federal financial management during the first decade under the CFO Act, as well as unfinished business remaining.

From 2002-2004 the CFO mandated financial reports increasingly have reflected the priorities of the Bush Administration's Management Agenda. One of five government-wide initiatives in the Agenda is improving financial performance. Emphasized here are enhancement of the quality and timeliness of financial information available to the agencies and Congress, as well as improving assets management, reducing improper payments, and strengthening controls over federal credit cards.

With OMB providing leadership for the improving financial performance initiative of the Agenda in the executive branch, the roles of the CFOs and their council continue to develop. While the council charter adopted in 1995 provides that the council officers set the agenda for federal financial management, OMB appears to be the pivotal player at present. The major council activity apparently is increasingly gravitating to the committee level. While cooperation between the reorganized OFFM in OMB and the revised council committee structure may well prove conducive to advancement of common goals, the issue of continued independence for the CFO Council may be of some concern. The CFO Act established the agency CFOs as a distinct group of actors with considerable independence and separate accountability, not just as a supportive group following directives from OMB. The evolution of the relationships between the role of the agency CFOs, the CFO Council, and central leadership from OFFM and OMB will likely continue to be of interest for purposes of congressional oversight.

Role of the CFO in the Department of Homeland Security[xxvii]

The Homeland Security Act of 2002 provided for a CFO position in the new department.[xxviii] Unlike the appointment procedure for CFOs in other cabinet-level departments, however, the CFO in the Department of Homeland Security is appointed by the President, but not subject to Senate confirmation. With respect to specific duties and responsibilities of the CFO for DHS, Section 103 (e), Performance of Specific Functions, states: "Subject to the provisions of this Act, every officer of the Department [the CFO included] shall perform the functions specified by law for the official's office or prescribed by the Secretary."[xxix] The law makes no reference to the CFO Act or to Chapter 9 of Title 31. In addition, unlike all the other CFOs, who report directly to the agency head, the CFO for DHS may report to the Secretary, or to "another official of the Department, as the Secretary may direct."[xxx]

Although the act establishing DHS did not place the new CFO position under Chapter 9 of Title 31, the issue was addressed in both chambers during consideration of the legislation in the 107th Congress. The status of the CFO in DHS was quickly revisited in the 108th Congress, following the establishment of DHS on March 1, 2003. Since the CFO in DHS was not formally under the CFO Act, DHS was not covered by subsequent amendments, such as the FFMIA. The FMFIA requires agencies to implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the federal government's standard general ledger at the transaction level, with auditors reporting on compliance with FMFIA requirements in the annual audits of CFO Act agency financial statements.

Moreover, the CFO in DHS is not a statutory member of the CFO Council, an important interagency group.

One version of the Department of Homeland Security Financial Accountability Act, S. 1567, which would bring the CFO for DHS directly under the CFO Act, passed the Senate under unanimous consent on November 21, 2003. A related bill, H.R. 4259, was approved by the House under suspension of the rules on July 20, 2004. An important modification in H.R. 4259 from S. 1567 and an earlier House bill is a dual reporting structure for the DHS CFO, who would report both to the DHS Secretary (akin to the other cabinet-level CFOs) and concurrently to the Under Secretary for Management (the actual arrangement for the CFO in DHS at present). The legislation appears to enjoy considerable support outside the Administration; as noted in testimony by GAO:

> The goals of the CFO Act and related financial reform legislation, such as FFMIA, are to provide Congress and agency management with reliable financial information for managing and making day-to-day decisions and to improve financial management systems and controls to properly safeguard the government's assets. DHS should not be the only cabinet-level department not covered by what is the cornerstone for pursuing and achieving the requisite financial management systems and capabilities in the federal government.[xxxi]

Supporters also contend that the CFO Act and related laws should apply consistently across the executive branch, and that the "unequal" status currently accorded the CFO in DHS denigrates the CFO position and the importance of financial management in DHS. The CFO position, with its fiduciary responsibilities, carries with it special needs for accountability, which Senate confirmation reinforces, proponents argue. In short, those who favor bringing the CFO in DHS directly under the CFO Act argue that confirmation is important, reporting directly to the Secretary is significant, and statutory symmetry, including membership in the CFO Council, for all cabinet-level CFOs, is desirable.

The Bush Administration has opposed bringing the CFO in DHS under the CFO Act, on grounds of diluting the effort to consolidate management responsibilities in DHS under the Under Secretary for Management, and, subsequently, from the rationale of reducing the number of positions subject to Senate confirmation.[xxxii] Furthermore, according to both the current and previous CFO in DHS, the legislation is unnecessary, because they have already voluntarily complied with the requirements of the CFO Act and its amendments. As CFO Andrew Maner testified before this subcommittee earlier this year, "[T]his legislation will not alter the way in which I perform my job, nor will it provide me any tools, reporting structures, or other authorities that I do not have today."[xxxiii]

During floor consideration of H.R. 4259, Representative Todd Platts commended DHS for its efforts in being fiscally responsible: "Although they [DHS Secretary Tom Ridge and other administration officials] are not required to comply with the CFO Act, they have made a determined effort to do so and are setting a good example." Enactment of H.R. 4259, nonetheless, is necessary, in order to ensure DHS compliance with provisions in the CFO Act, as amended, in the future.[xxxiv] Representative Edolphus Towns, the ranking member of the Government Efficiency Subcommittee, likewise urged passage of H.R. 4259, noting, in his concluding remarks, "This is a necessary step forward if we are to develop an efficient and effective agency that is ready to achieve its purposes of protecting our citizens, infrastructure, and borders."[xxxv]

Thank you. I would be happy to respond to questions.

Endnotes

i. P.L.. 101-576, Nov. 15, 1990; 104 Stat. 2838; codified as amended at 31 U.S.C., Chapters 5, 9, 11, and 35; also 5 U.S.C. 5313-5315, 38 U.S.C. 201 nt, and 42 U.S.C. 3533.

ii. There were originally 23 CFO agencies, but when the Social Security Administration was established as an independent agency, pursuant to the Social Security Independence and Program Improvements Act of 1994 (108 Stat. 1467), an additional CFO position was created, bringing the total to 24. When the Department of Homeland Security was created, the Federal Emergency Management Agency (FEMA) was merged into it, along with FEMA's CFO position, bringing the total of agencies fully subject to the CFO Act back to 23 CFOs.

iii. U.S. Congress, House Committee on Government Operations, *Chief Financial Officer Act of 1990*, report to accompany H.R. 5687, 101st Cong., 2nd sess., H.Rept. 101-818, part 1 (Washington: GPO, 1990), p. 21.

iv. U.S. Executive Office of the President, Office of Management and Budget, Memorandum from Frank Hodsoll, Executive Associate Director, re. "Guidance for Preparing Organization Plans Required by the ... CFO Act, Feb. 27, 1991, M-91-07

v. See Public Law 103-62, 107 Stat. 285.

vi. Federal Financial Management Act of 1994 was enacted as Title IV of the Government Management Reform Act of 1994; Public Law 103-356, 108 Stat. 3412.

vii. Enacted as Title VIII in the Omnibus Consolidated Appropriations Act for FY 1997; 110 Stat. 3009-389; 31 U.S.C. 3512 note.

viii. Public Law 103-82, 107 Stat. 882, 42 U.S.C. 12651f.

ix. Public Law 106-58, Sec. 638, 113 Stat. 475.

x. 31 U.S.C. 901(c)(1)-(4).

xi. Michael Serlin, "Born-Again Financial Management, *Government Executive*, vol. 28, May 1996, p. 63.

xii. When the CFO Act was enacted in 1990, there was something of a scramble to appoint chief financial officers quickly, and in many cases a political appointee already in place was named to serve as CFO along with continuing as assistant secretary for administration or management. "Some of these [initial] CFO appointees had financial management backgrounds, but many did not" (See Serlin, p. 63).

xiii. See "Charter: United States Government Chief Financial Officers Council," available electronically at: http://www.cfoc.gov/documents/doc_cfo_currentcharter.htm], visited Sept. 2004.

xiv. U.S. Executive Office of the President. Office of Management and Budget. *Federal Financial Management Report 2004* (issued Aug. 2004). Available at [http://www.whitehouse.gov/omb/financial/2004_report.pdf], visited Aug. 2004. No report was issued for 2001.

xv. Ibid.

xvi. U.S. Executive Office of the President, Office of Management and Budget, *Federal Financial Management Status Report and 5-Year Plan: August 1993* (Washington: GPO, 1993), p. x.

xvii. See U.S. Executive Office of the President, Office of Management and Budget, *Federal Financial Management Status Report & Five-Year Plan: July 1995* (Washington: GPO, 1995).

xviii. See U.S. Executive Office of the President, Office of Management and Budget, *2000 Federal Financial Management Report* (Washington: GPO, 2000), p. 3.

xix. Letter from the White House, dated Nov. 20, 2000.

xx. Harold Steinberg, "The Chief Financial Officers Act: A Ten Year Progress Report," *Government Accountants Journal*, vol 49, Winter 2000, p. 50.

xxi. U.S. Office of Management and Budget, *The President's Management Agenda–FY2002* (Washington: OMB, 2001), p. 1. For an online update about developments related to *Agenda* initiatives, see: [http://www.results.gov].

xxii. The four other government-wide initiatives include strategic management of human capital, competitive sourcing, expanded electronic government, and budget and performance integration.

xxiii. See *Federal Financial Management Report 2004.*

xxiv. Ibid., pp 30-32..

xxv. U.S. Executive Office of the President, Office of Management and Budget, *Federal Financial Management Report 2003* (Washington: GPO, 2003).

xxvi. *Federal Financial Management Report 2004,* p. 1.

xxvii. For further information on this subject, see CRS Report RL32550, *Homeland Security Financial Accountability Act: History and Recent Developments*, by Virginia A. McMurtry.

xxviii. P. L. 107-296, Sec. 103; 116 Stat. 2145.

xxix. Ibid.

xxx. Ibid., Sec. 702, 116 Stat. 2219.

xxxi. U.S. General Accounting Office, *Department of Homeland Security: Challenges and Steps in Establishing Sound Financial Management*, GAO-03-1134T (Washington: Sept. 10, 2003), p. 2.

xxxii. Concern has also been voiced about some other provisions in the legislation, beyond bringing

the CFO in DHS directly under the CFO Act. For example, at issue are the potential costs of conducting audits of internal controls in DHS, creating a new Office of Program Analysis and Evaluation, or imposing additional planning and reporting requirements on DHS.

xxxiii. Statement of Andrew B. Maner before House Subcommittee on Government Efficiency and Financial Management, March 10, 2004. Available at:
[http://house.gov/UploadedFiles/Maner_Testimony.pdf], visited June 2004.
The bill referenced was H.R. 2886, an earlier version of H.R. 4259.

xxxiv.Department of Homeland Security Financial Accountability Act, Remarks by Rep. Todd Platts *Congressional Record*, daily edition, vol. 150, July 20, 2004, ibid., p. H6073.

xxxv.Rep. Edolphus Towns, Remarks in ibid., H6074.

Mr. PLATTS. Again, my thanks to each of you for your written testimonies and your oral testimonies here today. I would like to start off on the questions asking you to expand.

Each of you touched on the role of the CFO as defined in the CFO Act. Are the statutory parameters specific enough or too broad? And what each CFO is required to be doing, as opposed to possibly being involved with, should we be fine tuning it to deal with the fairly diverse approach of CFOs across the Federal Government?

Ms. SPRINGER. I will start with one thing that I think is just happening without the legislation, but it would be nice if there were a legal basis for it, and that is the budget formulation. I think that a CFO that doesn't have explicit budget formulation responsibilities is hard-pressed to be considered a CFO in the fullest sense, whether it is in the private sector or the Federal Government. And I was surprised when I went back to read the legislation again to find that it was budget execution that was mentioned but not formulation. I would recommend that at the next opportunity that be something that be remedied.

Mr. PLATTS. That is certainly one that jumps out to me when we talk about strategic planning. It seems you need to be part of that budget formulation. And, as Dr. McMurtry's table shows us, the fact that some significant agencies—Department of Education, HUD, Agriculture—do not have—they have budget execution only—their CFOs—makes the point that there is a significant amount of the Federal Treasury within those departments where the CFOs don't have that role.

Mr. KINGHORN. If I may, I would certainly concur on budget formulation. If you only have execution, you are a clean-up hitter. There is nothing you can fix in the execution phase of the budget. You can track, count and report, but unless you have an integral role of developing that budget—because, as you know, decisions about budgets are made 3 years before the budget starts.

In general, I think the act is pretty broad. One of the issues that you might want to consider that might resolve some of trying to fix the 18 or 20 different functions is the concept of what financial management means. When it was enacted and that term was used—and even to this day, having come out of the budget world, financial management to many people sort of means accounting. I view it much broader than that. I would view the act as very broad. I would even view financial management to include formulation. If you don't want to get into a game of trying to fix every function, I think the act itself is very broad.

I think I would agree with Ed that sometimes you have to fit a particular organization. Back when I was Deputy Assistant Administrator for Management at EPA in all the 1980's, the functions we had were everything in the financial world. We had grants management, we had financial management, we had human resources, and we had IT and everything. And there is basically at that agency level reporting to the administrator a single office that could bring together all those tough issues. So we really had no question of who was or was not the CFO. That is now split into three different political food chains.

And, again, in this day and age when you bring up a financial system, grants are involved, IT is involved, every function that you can think of, and it is no longer possible to have this increasingly diverse balkanization of management functions unless you have a single individual office that can be held accountable for the success or failure of those functions.

Mr. PLATTS. So the example in DHS, the Under Secretary of Management where those various entities—positions are being funneled through, that approach is an example that's out there that you would embrace?

Mr. KINGHORN. The statutory recommendations that are being proposed, I think I would. I would probably even go further and indicate that office should also be the Under Secretary of Management/CFO. The CFO needs to be slightly at an elevated level than the other management functions.

Mr. PLATTS. And within DHS, it is Under Secretary versus at a Deputy Secretary level?

Mr. KINGHORN. I would prefer a deputy secretary level, but that's just my bias. And there is a lot going on at Homeland Security. It is a brand new structure, and sometimes it is difficult to put all these functions in one place, but I think I would support it for the long run.

Ms. MCMURTRY. One other thing I might note here looking back at the historical perspective, which is what I have to offer, when the CFO Act was enacted, there were provisions for each agency—more than provisions, there was a requirement that each agency prepare an organization plan to be submitted for OMB's approval to show how the various functions required by the CFO Act were going to be performed in the agency. And I think that because of the various developments that have occurred since the initial act, while we don't want to get bogged down in paperwork and organizational charts, it might be useful to think about agencies focusing on just whether the CFO has the structure within the agency or department to perform all the broad responsibilities that are given to them and expected of them.

And so while I think that we don't need arrangements to be identical in each agency, where you have a situation now that some CFOs are performing only three or four functions and others—it's not that they are performing the function wholly, it's not the CFO would perform the procurement function as a sole responsibility, but rather that they be involved and have some managerial responsibilities in the area so they can keep the breadth that they need and have some authority to go with their responsibilities.

Mr. DESEVE. If I could make two comments.

One, leaving out budget development was not accidental, wasn't just an oversight of the committee. The Appropriations Committee has weighed in heavily in many agencies, and the fact that the Department of Agriculture still does not have a CFO with responsibility for budget development is not an accident. You are bucking a trend, and you may want to talk to your friends in the Appropriations Committee both about this as well as about engaging in GPRA and being part of GPRA.

I come from a tradition of strong chief financial officers. When I was the Chief Financial Officer of the city of Philadelphia, there

were three individuals reporting to the mayor. One was the managing director, who took care of the operations of the department and the housekeeping functions, whether that was personnel or whatever. Second, the director of finance, which was my job. I did taxation. I did accounting. I did budgeting. I did information technology, because in those days it was bound up with financial management. I did everything but post audit. I didn't audit myself.

And so I believe, for example, in a place liked DHS, it is perfectly appropriate to have an Under Secretary for Financial Management, that going through a single entity, have the CFO, the chief information officer, the chief human capital officer, the chief procurement officer all reporting to a single individual significantly dilutes financial management and what we need to do is elevate financial management and make it a prime companion to program management. The two need to be interlocked and working together.

What is the revenue collection responsibility of DHS? It has the second largest revenue collection function in the Federal Government in the Customs Service. That's a lot of money. I forget the current number, but it is tens of billions of dollars that is collected through Customs. What are the internal controls there? Isn't that important? And I could go on and on.

I firmly believe the CFO at the same level as the chief management officer is appropriate. Now would I modify that view? GAO, for example, has the chief mission support officer as well as a chief operating officer and the CFO is embedded at GAO within mission support. Why? Because they don't have a lot of financial management functions. I am not in any way denigrating the Government Accountability Office, but it's not inappropriate that they have that structure. But if there is significant financial responsibility, there ought to be a chief financial officer reporting directly to the Office of the Secretary. And the initial intent of the CFO Act of having, one, the Senate confirmation and the direct access or DHS bill of trying to kind of take that hybrid approach of maintaining that direct access—Senate confirmation—but also with dual reporting to the Under Secretary.

Mr. PLATTS. I have additional questions, but I would like to yield to the ranking member, Mr. Towns.

Mr. TOWNS. Thank you very much, Mr. Chairman.

Mrs. Springer, let me begin with you, in your testimony you mention how CFOs are now also assuming additional responsibilities, and there's two schools of thought. Some people say that's good, and some say it's bad. What are your views on that?

Ms. SPRINGER. What I've seen is that CFOs have too many responsibilities beyond the CFO Act, that it dilutes their ability to be as effective as they should on the basic CFO functions as they are listed in the act.

So, for example, without naming an agency, one individual that had the full breadth of all the new responsibilities—the IT officer, not just for financial systems but for all the IT resources, was—I believe had personnel responsibilities, had a variety of these additional ones that have since been listed in separate acts and separate pieces of legislation. But when they had all of them, they were not as effective and they were slower to achieve some of the management successes that we have seen in other agencies.

I believe that the CFO responsibility with the act and with the addition of the budget formulation, which I think is more akin to a CFO's job than personnel, that's a full-time job for our CFOs. So I think it is better to have a dedicated personnel manager. I think it's better to have a designated CAO for acquisition and a designated CIO that have certain skill sets that are germane to those responsibilities that a CFO may not have.

Now having said that, I believe that the CFO, as has been stated by someone earlier, has a higher level of prominence in the organization, not because the other responsibilities aren't important but because everything that's done has a financial aspect to it, in my mind, in the agencies. I don't believe every aspect, everything, has the same level of involvement for those other positions, but I would recommend that the CFOs stick to things that are strictly financial and financial management.

Mr. TOWNS. Not grants management.

Ms. SPRINGER. Grants is a little bit more borderline, but when you get to personnel and CIO responsibilities, I think it should be by someone else who brings a more dedicated skill set.

Mr. TOWNS. Anyone else want to add on that?

Ms. MCMURTRY. I want to say one thing on the personnel issue. It is my recollection that in report language, if not in the actual statute, the CFO is expected to perform some personnel duties with regard to financial management personnel. They advise on the appointment of the deputy CFO, and my recollection is that they also were expected to be involved in recruitment of agency financial personnel below them and also to be involved in training, again, of financial personnel. It's a limited segment, but it's the special needs that financial management has. I think there was some thought as the legislation was being drafted to give the CFOs a piece of that responsibility.

Ms. SPRINGER. If I could followup, if I may. I agree with that, and that would make sense in the structure I envision. Where I would draw the distinction is in the chief human capital officer that is pervasive through the whole organization.

Mr. TOWNS. Mr. Kinghorn, our committee has spent several hearings this year focused on the financial management of Federal agencies, including the number of clean audits received at the agency level. Can you identify for us ways in which the CFO community can improve upon current efforts of the government to achieve a governmentwide clean audit?

Mr. KINGHORN. When I went to IRS, again—and it has been 8 or 9 years or maybe even more now—it took a long time for the IRS to get a clean opinion. I was there 5 years. I was the first and still the longest-lasting CFO of Internal Revenue, and I had to put a new financial system in, and we did that successfully in the first 18 months. That meant 2 or 3 years of not achieving a clean opinion because the system wasn't yet working and that would help get me there. And then we realized we had a wonderful financial system in place but the business processes were a mess.

That is a relatively contained organization; and most of our problems at IRS were, frankly, not in terms of accounting on the revenue side but really the appropriation side, the appropriated accounts, which were really a basket case, frankly. Three years after

I left, finally got a clean opinion. Two years, they sort of got one, but then lost it. But it took 8 years for the IRS, which is really mostly appropriated accounting—you look over to the defense, which is comprised of over 200 financial systems. I had six to get rid of. They have 200. That is incredibly difficult. And, frankly, the attention of this administration and the oversight in the last 4 years to specific issues of financial management has really helped to enable people to get things done.

On the organizational issues, when I went to the IRS, I was an outsider. I was the first executive into IRS from the outside; and if I had not the placement in that organization of reporting—four people reporting to the Commissioner, no one would have listened to me. And I had concerns then, people thinking I had too much authority. And it really goes to DHS. In most organizations, particularly I believe in compliance organizations, which IRS is, and most programs, there is a desire to get the program done. And I think in DHS, having consulted with that organization in its previous components, it is a very difficult place to improve financial management because people believe in the program. So unless you really place within DHS in a position of true authority, I think reporting to the Secretary, the CFO function, I think it is going to be very difficult to pull together multitudes of systems that didn't work well before they were consolidated and try to get it done.

I think the issue around placement is very important. That won't make it happen, because you need the right people and the right functions. I think without placement, you are going to have a very difficult time in a diverse environment like DHS.

Mr. TOWNS. I yield back.

Mr. PLATTS. Thank you, Mr. Towns.

Continuing on the discussion about these different roles and the importance of CFO versus some of the other more recent statutory positions, has OMB given any guidance to the departments and agencies regarding either the alignment of the CFO and these other positions and factors to consider in what—how broad the CFOs responsibility should or shouldn't be?

Ms. SPRINGER. OMB hasn't issued a particular circular or work product that defines those roles. We believe that the legislation for each of those has addressed and has identified different positions. The CIO, the chief human capital officer, CAO and CFO, each of those has legislation to varying degrees that defines the roles and responsibilities of each of those positions and we think establishes those as unique positions.

To the extent that a secretary decides to have the same individual occupying more than one of those positions and more than one title, it would be similar to the private sector saying your chief human resources officer is also going to be your chief financial officer, going to wear two hats. But the roles themselves are what they are. We don't believe there is a need for OMB to come up with an additional description of the CFO's role, for example, because we look to the CFO Act for that, as we do for the chief human capital officer and the others. Each secretary is left to make the decision as to how many hats to give a given individual among those four different positions.

Mr. PLATTS. Within your CFO Council committee structure, your Best Practices Committee, is there any discussion of "in department X, I'm wearing two different hats," "here's how it is working and not working." Is that type of dialog occurring?

Ms. SPRINGER. Formally and informally there is. The CFOs talk among themselves about what makes them successful and what challenges they have and where they are placed in the organizations.

We also did a survey, as you know, roughly a year ago. The Council asked the Department of Labor, whose CFO volunteered to do the survey of the responsibilities and to update previous surveys. So that grew out of the Council's interest in surveying the landscape. So, from time to time, we will formally look into that, and there are varying opinions. There are some CFOs that would say they like the breadth of wearing several hats, and there are others that are happy to have a more focused approach that more aligns with their skill sets.

Mr. PLATTS. In response to the Department of Labor study, I would be interested in the general reaction of the CFO Council members to the disparity when that came out. Were they surprised that Education had four of the core function areas, versus Commerce, where they had eight. Did they want to look into it further to find out why two different departments have a significant difference?

Ms. SPRINGER. The strongest reaction that came out of the panel that we had to discuss this was the budget formulation issue and the absence of that, and that is why I keep going back to that. No one expressed a strong desire, for example, to have personnel that didn't already have it.

But they felt, as CFOs—and I agree with them wholeheartedly—that if they didn't have budget formulation—they didn't have that seat at the table at the front end—as was mentioned earlier, that they were more coming in at the back end, and that more of the execution, which they felt a CFO really should have, was at the front. And so they really did feel an issue with that, whatever the history was.

Mr. PLATTS. And that leads to, for all four of you, that issue of budget formulation and your opinion in a broad sense, or if there is any specific example you want to give. You're familiar with different agencies, like IRS or HUD—in the level of authority or actual impact that CFOs are having from a strategic planning standpoint.

Several large ones do not have that budget formulation, it leads me to believe in those departments, those CFOs have less input into strategic planning of their departments.

Even where they have the budget formulation responsibility, I would be interested in your thoughts as to why they have the responsibility and involvement. Are they truly being engaged and actively included in the strategic planning process?

Ms. SPRINGER. I think that's a fair question to ask, Mr. Chairman, and I think it's safe to say that they would feel that they were more involved, to whatever extent they were involved now. But they would feel that they were more involved if they had the budget formulation piece, and I think they would welcome that.

Mr. KINGHORN. Let me give you an example of where it really is crucial, and it goes back to my experience. I arrived at IRS about 3 months before the end of the fiscal year; and the one question I did not ask the Commissioner—foolish me—was, How was your budget for next year?

They had a $500 million shortfall on labor costs. It was the third year they had done that. And the main reason that resulted was that there were lots of decisions being made in the formulation stage on personnel policy with the unions that greatly affected the ability to pay.

So what I did, because I had those functions finally consolidated was, we did a major study in the CFO office that looked at what were the drivers of labor cost. We developed a model. And that became very sensitive because—that's why it is a sensitive issue because we had to go into the programs and force them to become more careful in how they develop their budgets. And 2 years later, they did not have a labor problem because we were able to look at it in formulation.

What was happening in execution was, they were taking money away from the IT program to pay for people's labor costs, the only place to go.

So I think that's the clearest example to me of why you'd want to do it. And I think also the reason it's so sensitive is because it gets the CFO really into the pockets of the program operations, which is where I think it should be.

Mr. DESEVE. I have to go back in history for just a second, Mr. Chairman. What we find, that I hadn't really looked at—the labor at Department of State—carefully, but it's consistent with what I know, historically there were assistant secretaries for management and budget and that had administrative functions as well. Often departments grafted on the CFO function or grafted on the CIO function, onto those existing organizations, rather than creating an independent CFO organization.

Take HUD for a moment. HUD actually split out the CFO function. They left their assistant secretary for management and budget in place. Budget formulation was at the ASMB level. Finance and accounting went with the CFO. Over time, HUD evolved and took away from the individual who had the budget formulation responsibility, that responsibility, and gave it to the CFO.

What I see here in the various departments is the remnants of history. I won't go department by department, but I have some knowledge of some of the major ones. Agriculture is still a problem. Go talk to the Appropriations Committee about that one. I can't help you on that one.

Justice has a tradition of a strong management operation in certain areas. In State, for example, personnel isn't in that, but the other functions are because there was a separate director general for personnel within State. So I think you almost have to go agency by agency and have this committee ask, does this make sense? Is there a sensible accommodation of the finance function or not of budget formulation?

The other function I would add to this is asset management. The more I work with Federal agencies, the more I realize that in addition to the functions across the top, for many of them, especially

the credit granting agencies—that is, Education, HUD, VA, Agriculture—the stewardship over financial assets, especially loan programs, SBA, is an enormously important function, and if the CFO isn't playing that function in credit granting agencies, then you've got a significant disconnect.

The programs also want to make more loans. They always want to serve a greater population. But the risk factor needs to be accommodated as well. There has to be a balancing, whether it's under credit reform or other standards of those two things.

So I would add that function, asset management, and indicate that not every agency has it. But where it exists, is the CFO actively involved in designing those programs. We have a $100 million portfolio. That doesn't sound like much in Federal parlance, but $100 million portfolio of loans. Thirty-three percent of the loans made to students are made through the direct loan program. We'd better have good consonance, and we do in the Department of Education between the CFO's office and the portfolio, as it exists.

Mr. PLATTS. Thank you.

Ms. MCMURTRY. I think another issue here that might be combined with looking at what the CFOs have done, and another thing really that makes a case for combining the budget formulation and budget execution is another one of the initiatives in the President's management agenda, that being the budget and performance integration. Especially with that, aside from all the concerns about financial management, I don't see how that's going to ultimately be as effective as possible; that is to say, efforts of performance budgeting, unless you have, somewhere, someone overseeing all pieces of the budget cycle as well as the performance measurement.

Mr. PLATTS. OK. Thank you.

Mr. Towns.

Mr. TOWNS. Yes, thank you, Mr. Chairman.

Dr. McMurtry, is it any way we could—anything that we might be able to take a look at to see, you know—let me be specific. NASA has gone through three financial management systems to the tune of about $180 million. Is there anything, any guidelines to be used to sort of see or determine or to avoid that kind of waste?

Ms. MCMURTRY. In terms of trying to consolidate financial system and make improvements in them?

Mr. TOWNS. Yes, yes, right.

Ms. MCMURTRY. Quite frankly, I don't have too much technical expertise in the systems aspect of it. Ordinarily, I think the case would be made that if you can combine and simplify your systems, down the road there should be some savings because things will be more efficient and you will be able to get the information you need for your program people and so on faster if you have a system that works.

But in terms of having a—putting a lot of money to develop a system and then have it not work, I can't offer you any guidance there, except I guess you need to look at the designers of the system, whether it be contractors or whatever, and try to get the most capable people on it.

Can anyone else comment on that?

Mr. TOWNS. Yeah. Anybody else want to add anything to that because, you know, to me——

Mr. DESEVE. You have two of the world's great experts in financial systems in Mr. Kinghorn and myself. I don't know Linda's background, so we can't duck the question. He can, maybe; I can't. I was involved heavily with NASA's financial system when I was at OMB. And my view of the world is as follows: NASA needs to fully involve and fully integrate its program and mission support areas, including its contractors—by "contractors," I mean the people who run the NASA program——

Mr. TOWNS. Right.

Mr. DESEVE [continuing]. In developing the stewardship and financial systems. It can't be something that's imposed by the chief financial officer's office upon the field.

NASA is an agency with a field culture. If you go to the jet propulsion lab, or if you go to Huntsville, Alabama, or if you go to any of the other parts of NASA, that's where NASA really works, really does its work.

The Kennedy Space Center is where they really do their work. Anything that seems to come from central office and limit their flexibility or impose upon them additional requirements has to be carefully integrated with the way they do their operations. And I think NASA's culture has resisted almost as I might resist penicillin perhaps. I might be either allergic or resistant to penicillin.

NASA's culture has resisted financial systems over time. Now, I haven't looked at it for some time, but I saw the failures that occurred, and I believe that it is the engagement of the program entities with NASA's central management that can provide a successful system. But till now it has not. And I'll probably be sorry I just said what I said.

Mr. Kinghorn actually installed more than I installed, so I can ask him to comment.

Mr. KINGHORN. These are incredibly difficult to pull off. Forget the technologies, which I think are pretty substantial. They are difficult for cultural reasons, and NASA does have a field structure culture just like IRS did. They had six regional financial systems, IRS, controlled by the regional administrators; whereas when I went, I wanted to find out what the big picture was, I had to go to them and ask and beg.

NASA's centers and their field structure were the power bases, so you've got a real cultural change there. And I think Ed was exactly right; to make it successful, and I believe, albeit with some recent GAO reports on their implementation, they're going about it the right way.

They really have begun to change the culture. The CFO and controllers at the centers who run NASA day to day don't report directly to headquarters nor should they. But they report to their center director, and then when the center directors historically said, to heck with this central management stuff, that's who they listen to.

That's changing. When I went to IRS, the Commissioner asked me in the interview, if you come here, what's the most important thing I can do for you? And I said, do not blink. I'll give you 5 years. It'll take that long to do this. If you blink, I'm dead.

And people tend to blink. Three commissioners didn't for me. People tend to blink just when it gets tough. And I really think NASA has begun to turn the corner in terms of getting the system up, getting the way that helps the program operations and trying to pull together enormous financial data that no one has ever really wanted to look at.

So I did a study for NASA just before I left consulting that really looked at the impacts of the budget process on any of the shuttle disasters. And what was striking to me was that they never looked at the full cost because, really, the centers and NASA as a whole did not want to look at the full cost. So you've got a dificult culture there.

That has changed under the current administrator.

So these are very complex issues. I think some previous NASA failures as other agencies had with technology that perhaps wasn't ready, but getting the program operations involved early and making sure the reporting mechanisms—if you ask people and the agency what doesn't work, it's really the latter.

Accounting processes often do work. They may be more cumbersome appearing because people didn't have to do a lot more. You have to do a lot more information inputting now than you did in the old days. That's why you want a system, so you have better financial data.

But the real issue is reporting, and reporting is difficult. You can get reporting for accounting. You may not have it for the program operations. Both sides can complain on that. But it's an extraordinarily difficult thing to do in a place as big and as field oriented as NASA and some of these compliance agencies.

Mr. TOWNS. Right. That raises another issue, the issue of tenure. I mean, how do we handle that problem?

Mr. KINGHORN. Of tenure?

Mr. TOWNS. Tenure, yeah. Because I understand that the average CFO stays about 22, 23 months and sort of moves on.

Mr. DESEVE. Yeah, I'd like to see that data. Because if you look at my career within the Federal Government, I started in 1993 and left in 1999, you would say that I only stayed 2 years in the Federal Government because I actually moved, I changed jobs. So it is a good thing in some cases when you see CFOs move.

Often a CFO will move from one agency to another or into a different program slot. Some day I would like maybe NAPA to go down and look at that.

One of the things that we did, and Linda has continued this, is, we made sure that the deputy CFOs, who are often the operational day-to-day administrators of the CFO office, were very much part of the decisionmaking process in the CFO council and in the department itself, so that the tenure, the institutional knowledge, was guaranteed more at the career level than it was at what we will call the political level along the way.

But I even think, at the political level, that the continuity may be greater than we think it is because sometimes a CFO actually really does well and becomes a deputy secretary. I've seen that happen twice. So we may see that the tenure is really longer within the organization, within the institution, than we think it is when we have the deputies there to continue to bring it forward.

So I think we're doing the right thing at this point.

Ms. SPRINGER. In addition to that, which is actually correct about the deputy being a critical position—we have some CFOs that if you look at the official date from when they're sworn in until the date of their departure, it doesn't reflect the time that they're with the agency, in some restricted capacity appropriately, prior to their official swearing in and approval.

So, for example, if you looked at me, you'd think that I was controller since April 2003. But in fact, I was at OMB from September 2002, and I wasn't just sitting around on the sidelines. I didn't set policy or didn't cross the line, but there were ways to contribute as a consultant, in effect. And many of our CFOs have earlier dates of arrival on the scene, if you will.

Mr. TOWNS. All right. Thank you very much.

Thank you.

Mr. PLATTS. Thank you, Mr. Towns. Following up on some of the dialog on the NASA example, we have had various discussions with NASA, hearing and focusing on their challenges when they have about one-eighth of their entire budget unaccounted for at the end of the year and they just do an accounting correction without any ability to really say where the money went. That tells us that there are some significant problems.

Our memory of the exact number of corrections was something like $560 billion in corrections where they recorded it wrong, and then moved it over here, and then reported it wrong back and forth. Mr. Kinghorn, you kind of touched on their center or field mentality. It really seems to be one of the challenges there. In our hearing with the CFO, one of our focuses was what's her authority over the center CFOs as far as giving direction to and, ultimately the ability to hire and fire those?

It seems that those center CFOs look at the agency-wide CFO and say, "I don't answer to you; you don't have authority to fire me, so I'm not going to prioritize what you need versus what my center director does."

Do you think, using NASA as the example—and it won't be the only agency out there—should that agency-wide CFO have a specific authority ensuring the ability to hire and fire, or at least have a synergy with the center director, in the case of NASA, to provide more connection?

Mr. KINGHORN. I had that same issue when I was at EPA and IRS, and the way I came out in both places there was that they're really more soft dotted lines. Because my life was, and still is, that if you've got a strong field operation, which both those agencies do, unless the controller and CFO at the local level really has the eye, ear and the trust of the center director, or EPA regional office, whatever, it's not going to ultimately work either.

In the study that we did—and I'm sure NASA could provide it to you, I think we—I'm trying to remember. It's been about a year and a half, 2 years. I think we recommended, if not direct reporting, a very strong-line direct reporting to the centers because there really was divided loyalties. You know, if you're a center director, controller, CFO, and you know there is not a lot of support or power base at the national office, who are you going to work for day to day?

So I think in NASA's case I would probably make that dotted line pretty close to solid with, certainly, coevaluations. Not to defend NASA, but they are really trying to do some extraordinary things. And it's similar to what I tried to do at EPA.

EPA—when we brought up the new system, we also had to implement the Superfund Act which required full cost accounting, and everyone went absolutely nuts. We were successful in doing it. It was very painful. Unfortunately, I left after it was implemented, but they had a lot of blood on the table for 2 or 3 more years. But to this day that system works reasonably well and probably has the best accounting data in the U.S. Government for management purposes, Superfund.

NASA's trying to do the same thing. They're bringing up a very complex system, trying to change the culture; and also bringing up full cost accounting, which I can assure you—not with any direct knowledge, but I can assure you that people in the field do not want that.

So it's not to explain they don't have problems. I had tremendous numbers unreconciled at IRS for years. I tried to explain that wasn't real money. You know, it never worked either, and it shouldn't have been there. But I would suggest what they're trying to do is extraordinarily difficult, and I think they're further along than they've ever been before, and I think you need to keep on top of them.

Mr. PLATTS. Yes. I would agree with your assessment, with the NASA administrator and the CFO and their commitment to staying on top of it.

Are there things that this committee should look at trying to make happen to give that agency-wide CFO the ability to do what they're trying to do? If she can't answer the questions because she's not getting the information from the center CFOs, this committee will have no choice but to bring the center CFOs in here and start putting them on the hot seat, defending their actions and not having the cover of the agency-wide CFO whom they don't want to respond to.

Mr. KINGHORN. That would be a good idea, actually. I recommend you do that.

Mr. PLATTS. Well, it's something that—the thought's out there, and I think it's known within NASA. I do agree that they have a challenge and there is a committed team of leadership there trying to overcome those challenges of the past and get accountability. We'll continue to hold their feet to the fire. I also am a big supporter of the space program and believe the better we do on the financial management, the better the space program will advance and succeed because it will have the resources it needs.

Mr. DeSeve, did you want to add something on the NASA issue? OK.

I had maybe one or two other areas. Mr. DeSeve, you touched on it in your statement. You compared the public sector to Sarbanes-Oxley. In Sarbanes-Oxley, we're more specific in delineating responsibilities of executive officers. Should we be more specific in a similar fashion with public officials? You addressed that you think we actually do more of that now than we actually appreciate.

Mr. DESEVE. Yeah. We might ask CRS to do a study for us. I think if you took the log of, starting with the Inspector Generals Act—where the Secretary has to read and respond and affirm to the inspectors general's finding semiannually, the head of the agency has to make a response to that—and then went down into the internal control aspects of the Federal Financial Management Improvement Act and looked at those, and looked at responding to the material weaknesses in the audit, in the CFO Act, and the accountability under GISRA, as another example, where the systems aspects, the plans, have to be affirmed by the CIO and then go to the agency head, I think we find the agency head performing a series of functions that effectively mirror Sarbanes-Oxley.

I think that's true again in the procurement arena.

So if we took Sarbanes-Oxley on one axis and the various Federal statutes on the other axis and mapped, kind of in a three-dimensional way, the responsibilities of the chief management offices, I think the consonance would be very high. I think there would be a very high level of overlap in those areas. Other than external reporting to the SEC and places like that, I honestly don't think that there are holes.

Now, I'm not an expert in Sarbanes-Oxley. So I just took a quick look at it, and from my own experience and with corporate structure. But I think that's where I come out.

Mr. Kinghorn, who was in a public accounting firm, may have a better view than I do.

Mr. KINGHORN. Well, I'm not an accountant so—I think the only significant change might be on implications that once you sign and something goes south. And I was saying with you, when I went up to the administrator, the Commissioner on Internal Control Signoff, they took it very seriously.

But, you know, chances were they were going to be gone in 18 months, and other than direct fraud or a violation of that efficiency act, I don't think there was implications, as there are in Sarbanes-Oxley. So I think that would have to be given some thought.

Mr. DESEVE. Well, you know, again, Judge Alvin Adams, who sat in Philadelphia and looked at the HUD scandals and put a number of people in the Federal prisons, focused the attention of the HUD Secretary following that activity. I mean, Secretary Cisneros was very careful when he reviewed it. So there are consequences out there.

And I'd love to someday see someone go to jail for a violation of the Anti-Deficiency Act. One of my fond wishes is that we would some day do that.

Ms. MCMURTRY. Just to mention another source of information, the chief financial officer at the Library of Congress actually just brought this to my attention, and I haven't had a chance to read it thoroughly. But it's a study by KPMG on Federal agencies—will Sarbanes-Oxley fit—and then the discussion of Federal internal controls.

And they say at the outset that if the requirements from Sarbanes-Oxley were adopted by Federal agencies, it would mark a major shift in current procedures and policies. It could strengthen the confidence of the American taxpayer in the government, im-

prove the effective use of Federal resources and provide more accountability.

So, I guess that's a little bit different take than you have on it. As I say, I haven't read the whole document. But that might be something of interest to the committee if it hasn't come to your attention already.

Ms. SPRINGER. Mr. Chairman, if I could complete the cycle of the panel on this question, we're well aware of that study and just about every study that's come down the pike on Sarbanes-Oxley for the Federal Government.

As you know, at this committee's recommendation, in that DHS bill we have convened a working group task force of IGs and CFOs from our Committee on Financial Management Policies and Practices. Essentially, it's one of those committee responsibilities, working with the IGs to do exactly what was mentioned earlier—compare the private sector practice to the existing guidance and legal requirements in the Federal Government with respect to internal control over financial management and financial reporting.

We've done that. We've assessed the risk environments in the private sector versus in the Federal Government, which are different. We've done that. We are reviewing the existing OMB guidance for management of our agencies, the CFOs, the Secretary—A–123, which you should be familiar with—on assertions with respect to internal control.

I received a draft of that last night, so as I mentioned before the hearing to some of the staff, we are getting very close to the point where we would like to come up and visit with you about our recommendation for strengthening this.

So I have decided not to be silent here. I don't want to preempt what we are doing, but we are very close, and I would say, before the end of this calendar year, we'll have a strengthened procedure in place for management that addresses Sarbanes-Oxley.

Mr. PLATTS. Dr. McMurtry and Mr. Springer, internal controls is, the next item I had written here in my notes to bring up. With that specific focus, and I'm pleased with how OMB is moving forward in a very active way and working with the CFO Council and inspector generals to come out with a department- or a government-wide recommendation and process.

I am going to use you two as bookends here to our two middle witnesses. Mr. Deseve and Mr. Kinghorn please provide your thoughts from having been in HUD, having been in IRS, EPA, on the issue of auditing internal controls and the role they play and how, if any, we should be more specific in demanding the internal control approach.

Mr. DESEVE. I think the nature of internal control has to start with things at the program official level. It doesn't start from the, you know, the IG or the chief financial officer. It starts with looking at the processes of asset management, transaction processing and so on that go on almost at the lowest level of the organization, and then builds from that a pyramid. And it needs to deal with what is sensible.

I haven't read the KPMG report, and I used to work for KPMG once upon a time, so I really can't comment on it, although I would like to. But I can't.

Taking the legal framework that exists now and asserting to each of the individual managers that there were sensible and common-sense things that they needed to do to get control of their assets, their contracts, their transaction processing in such a way that it just didn't involve checking a box and passing a form on is the essence of internal control. And I worry that we almost have an enormous framework of Federal States beyond OMB Circular A–123, beyond the GAO green book, that people—there's an old expression, "Bad money drives good money off the market." I think it's Gresham's Law.

Too much reporting and too much checking boxes and form-filling-out makes people not spend the time, the appropriate time, looking at problems.

I eliminated a form called the HUD–1 at HUD. The HUD–1 used to require agents in the field to add up the summary schedules at housing closings and figure out whether the math was right. That was a really stupid idea. And so we eliminated the HUD–1 schedule, but rather we said, no, you need to do other kinds of surveys and controls.

So my only plea would be for reality at the program level, where program officers think that the internal control's a useful extension of their business, and I fear that accountants run amuck.

I wasn't an accountant, nor was Mr. Kinghorn. But accountants running amuck will produce an internal control regime that will not be useful and will perpetuate the paper work that people are so fed up with.

There, I've said it.

Mr. KINGHORN. One thing that was exciting to me about the CFO Act and financial statements—and there wasn't much in the beginning because it was tough to get them—was the fact that it was a process by which all the different competing requirements around internal control were going to suddenly be consolidated, I thought, into the audit process, where all our business process would be examined. And I think that's probably where the home should be.

The best document now, which is quite old and I think subsequently has been brought up and used by GAO in its guidance, is something that used to be called the COSO report, the Committee on Sponsoring Organizations, which really is worth reading because it's a very understandable document on internal control done by Coopers & Lybrand, I believe back in the 1990's. It sets the framework that Ed just mentioned.

It has to be common sense and oriented toward the program, not an accounting by itself process.

Mr. PLATTS. I think that the message is, if we're going to require additional efforts in reporting, that it truly be something that's merit based and going to have an impact. We've regularly talked about it the last year and a half. Our goal isn't just a clean audit; it's to have a financial management system in place that you actually, day to day, can use to make decisions. Just saying that we are going to audit you and we want you to have a clean audit is not what we're after. It's useful information.

We'll look forward to OMB's work in progress and look forward to those discussions of where we go on that issue.

Mr. Towns, did you have any other——

Mr. TOWNS. Just quickly. Is there anything more that we should do legislatively?

Mr. DESEVE. Morgan and I talked about this at the beginning. I think it would be worth again asking either CRS or someone else to go in and look at all the legislation. And, again, I would start back with the IG Act and come forward.

And if it were possible to pass clarifying legislation that eliminates overlaps, that gets rid of certain things and then imposes new standards—I'm really, frankly, very surprised at just the conclusion that Dr. McMurtry talked about from KPMG, that there is in an effective internal control regime. My goodness. There are an awful lot of pieces of the legislation out there. How can you pass a unifying act or a generic organic statute in this regard rather than—leaving out all the pieces that are out there?

I'd love to see a unification across the board of the IG Act, the CFO Act, GMRA, even looking at things like FFMIA, FMFIA, FACA, FARA, GISRA and GPRA to create a single unified statute that people could look to. We called it the unified field theory when I was at OMB, a single statute that people could look to that has all the information in one place and makes it easy to do their job.

So if you could engage in rationalization, I think there'd be a lot of applause out there. Very hard job. Not something that congressional term limits would help with. You may need a couple of more terms to carry it out.

Mr. TOWNS. Thank you very much.

Mr. PLATTS. It would also help us eliminate the number of acronyms, if we had one, right?

Mr. DESEVE. I sure hope so. I forgot DCIA.

Mr. PLATTS. I've got to go check my book to see if I can figure out what a couple of those were.

I certainly appreciate your testimony and participation, and as I said at the beginning, the four of you have a wealth of knowledge; and we appreciate your sharing it with this subcommittee as we try to stay the course and keep a good focus on the Federal Government's financial management practices and the important role the CFO plays in those practices. I'm sure, in the months or years to come, we'll come back and ask for your expertise again and be glad to have it.

We'll keep the record open for 2 weeks for any additional information that you would like to submit based on the give-and-take here. Otherwise, this hearing stands adjourned.

[Whereupon, at 2:33 p.m., the subcommittee was adjourned.]

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